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China Market Strategy

Capitalise on 245 mn retiring baby boomers

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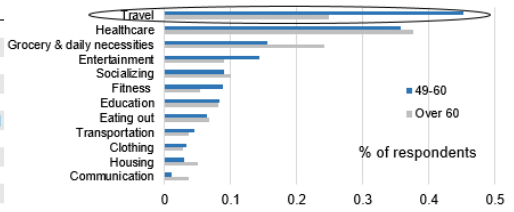
Connections Series

Figure 1: Key milestones for baby boomers and spending preferences after retiring

Year	Age	Event
1976	7 -16	Cultural Revolution ended
1977	8-17	Gaokao (college entry examination) resumed
1978	9 -18	Reform and Opening up program launched
1980	11-20	Shenzhen Special Economic Zone established
1988	19 -28	Private companies recognized legally
1990	21 -30	Shanghai and Shenzhen Stock Exchange founded
1992	23 -32	Pudong New Area set up
1998	29 -38	Commercialization of housing took place
2001	32 - 41	China entered WTO
2009	40 -49	Property price started booming



Source: Credit Suisse, CQi survey; CQi is a product of Credit Suisse APAC Equities and not part of Credit Suisse Equity Research.

- **Focus on the baby boomer generation.** While population ageing is well understood globally, the pace at which it is going to unfold in China is probably not as well understood by the market. Different from the "baby boomers" in the West, we refer to China's baby boomers as people born in the 1960s when ~245 mn Chinese were born, more than in any other decade in its history and equal to 8% of the global population in 1960. Our China Quantitative Insights (CQi) study, published today, leverages on a comprehensive survey of 1,500 middle-aged and elderly consumers and focuses on this generation. In this report, our team of analysts from China as well as from relevant sectors around the world, including other markets in Asia, take this CQi study into consideration and discuss the most important issues related to this theme for their respective sectors and identify key investment themes.
- **Baby boomers are wealthier, more confident, willing to spend and pay for quality...** They are more likely to travel overseas within the ASEAN region as the most visited destination, both for leisure as well as medical tourism. Baby boomers spend more time on on-line social, video/music, newsfeed and shopping activities, with preference for quality and necessity over price (so preference for Taobao/JD over PDD). They also expect to exercise more with higher brand awareness for Li Ning and Nike. Their higher hospital spend and willingness to pay for healthcare services should benefit high-end integrated private hospitals. As part of the public hospital infrastructure, orders for large-scale medical equipment (MRI equipment, CT scanners, ventilators, dialysis machines) would also increase. CQi's survey also found that baby boomers are more accepting of moving into senior centres, thus facilitating investments in retirement communities.
- **...and much more.** The impact would also be felt on pension deficits, calling for transfer of shares from state-owned funds, development of commercial pension and a more efficient asset allocation. Increasing participation of insurance companies and pension funds will build an institutional investor base and introduce sophisticated investment strategies and styles.
- **How to position.** Tongcheng-Elong, AOT, Malaysia Airports, BDMS, IHH, Alibaba, JD, CR Medical, New Frontier Health, Siemens Healthineers, Ping An, China Life, AIA, Prudential, Trip.com, Li Ning, Philips, Fresenius Medical Care and Vanke are major beneficiaries.

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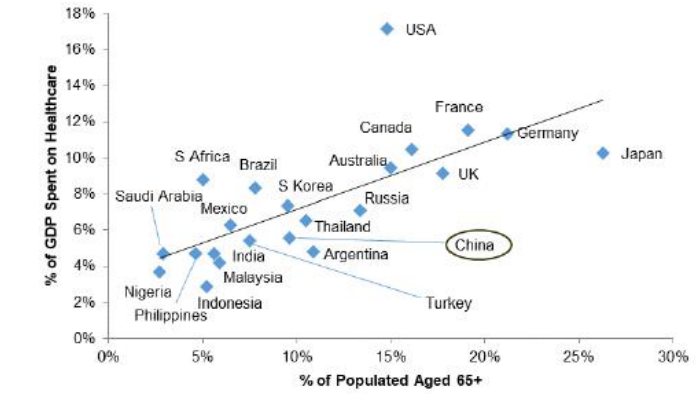
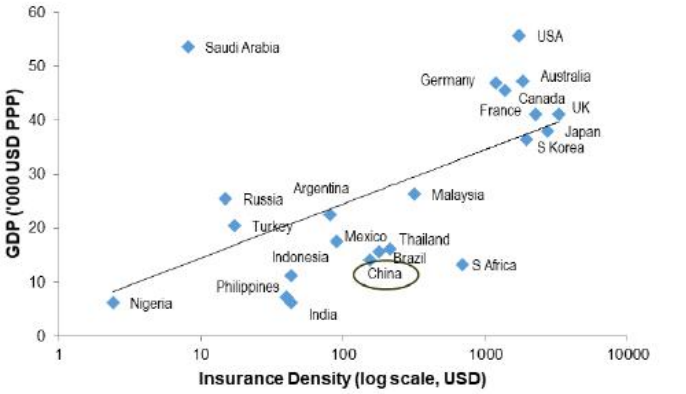
Focus charts

Figure 2: Population aged 65+ vs healthcare expenditure



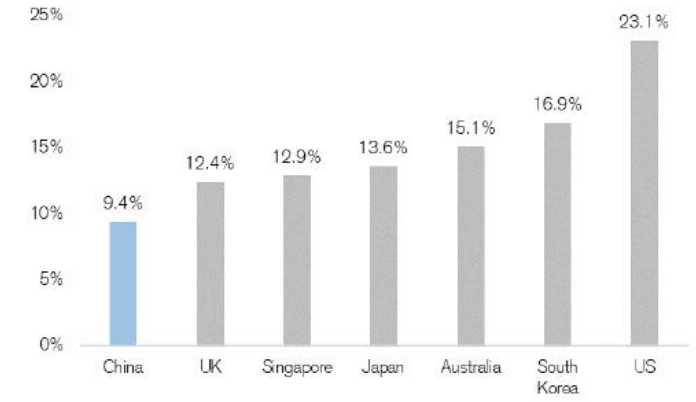
Source: UN, World Bank, Credit Suisse

Figure 3: Average insurance density (premium/capita) vs GDP/capita



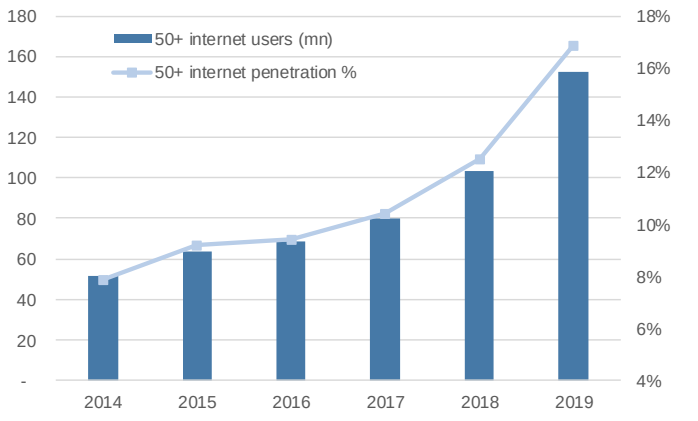
Source: World Bank, SwissRe, Credit Suisse

Figure 4: Sportswear retail sales as a % of total apparel and footwear sales in 2018



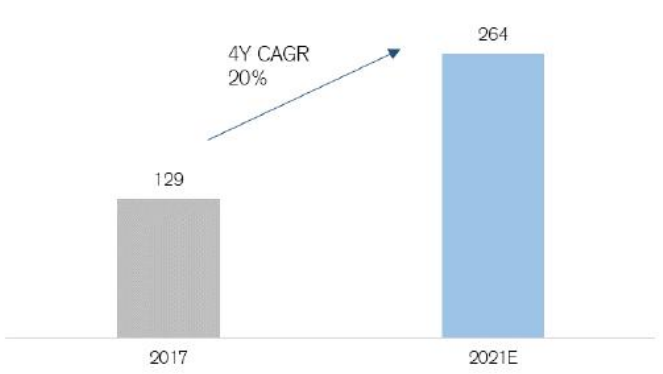
Source: Euromonitor, Credit Suisse estimates

Figure 5: Number of internet users and penetration of those aged over 50 years old



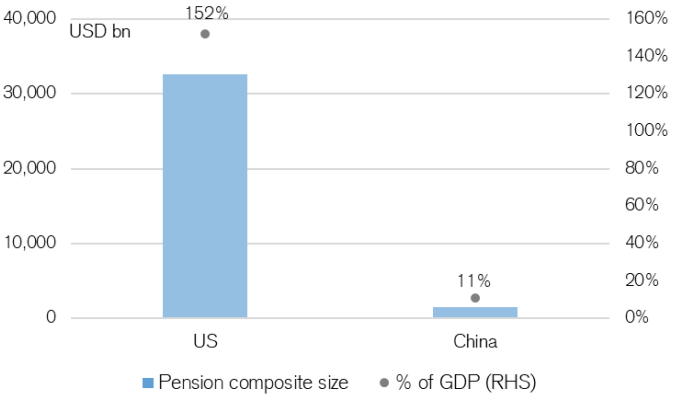
Source: CNNIC, NBS, Credit Suisse

Figure 6: China's outbound medical tourism market value (Rmb bn)



Source: China Economic Net

Figure 7: US vs China—size of pension system in 2019



Note: The amount of the first pillar of China's pension fund includes both the basic endowment insurance and SSF; the figure for the second pillar refers to enterprise annuity. Source: ICI, Ministry of Human Resources and Social Security of PRC

Capitalise on 245 mn retiring baby boomers

Ageing is undoubtedly a structural long-term growth theme, in our view. The 1960s' generation is retiring now, not only bringing great opportunities for businesses that serve them well, but also challenges in the context of such a significant demographic move. End markets likely to benefit include: travel; sportswear; e-commerce; property; health care; and financial services.

1960s' generation is retiring

Wealthier, more confident and willing to pay for quality

They are wealthier, and more confident and willing to pay for quality than other generations, having benefited from improving education, the reform and opening programme and WTO entry. The CQi survey shows GEN60s tend to travel more (increasingly overseas), spend on quality healthcare services, entertain more in their own way and pay more attention to fitness.

Baby boomers are wealthier and more willing to pay for quality

We see strong tailwinds for travel by baby boomers, thanks to more flexible schedules and higher disposable incomes, despite pandemic disruptions. ASEAN is the region most visited by China outbound tourists and medical tourism would gain momentum in the region. The CQi survey revealed that ~36% of baby boomers plan to increase spending on healthcare after retirement, with 16% willing to travel overseas for medical treatment. Thailand would be a major beneficiary, while Singapore offers quality high-end specialty care and treatments for life-threatening diseases. Malaysia is growing in recognition, on service quality and affordability.

GEN60s prefer spending screen time on social media, videos/music, newsfeeds and shopping, and place "quality" and "necessity" over "price" for shopping decisions, leading to higher usage of Taobao and JD over PDD. Post-retirement, baby boomers expect to exercise more. The CQi survey suggests a higher brand awareness, with Li Ning and Nike their top 2 choices.

The WHO Global Burden of Disease study expects China's total burden of disease to rise at least by 40% by 2030E, given the ageing population. Baby boomers should contribute to higher hospital spend, being increasingly more willing to pay for healthcare services, as confirmed by CQi. High-end integrated private hospitals are likely to benefit, thanks to differentiated market position from public hospitals, strong medical teams given a competitive pay and working environment and more patient-oriented services that support patients' willingness to pay. As part of the public hospital infrastructure, orders for big-ticket medical equipment such as MRI equipment, CT scanners, ventilators, dialysis machines and other equipment used in ICU wards and hospitals would also increase. Foreign manufacturers like Siemens Healthineers, Phillips, and Fresenius Medical Care still dominate the market, with domestic ones catching up.

The CQi team found that baby boomers have a higher acceptance of moving into senior centres. Insurance funds have incentives to invest in retirement communities, given long-duration assets and liabilities match, and a boost to sales of insurance products.

Challenges and opportunities for social security

China is facing a significant demographic challenge as a result of the ageing population, due to greatly-improved life expectancy and a gradually declining birth rate. The structural imbalance of the three pillars of the social security system has led to increasing deficit pressure and calls to make up the shortfall in the first pillar via the transfer of SOE shares, development of commercial pensions and more efficient asset-allocation to enhance investment returns. China's capital market has huge room to grow, as it is under-represented relative to the economic scale of the country. The increasing participation of insurance companies and pension funds is expected to further strengthen the institutional investor base and hopefully bring sophisticated investment strategies and styles to this rapidly growing market.

The ageing population brings challenges and opportunities for the social security system

How to position

Tongcheng-Elong, AOT, Malaysia Airports, BDMS, IHH, Alibaba, JD, CR Medical, New Frontier Health, Siemens Healthineers, Ping An, China Life, AIA, Prudential, Trip.com, Li Ning, Philips, Fresenius Medical Care and Vanke are the likely major beneficiaries of this secular trend.

Various sectors and companies benefit from the secular trend

Major beneficiaries' valuations

Figure 8: Company sheet

Ticker	Company name	Sector	Rating	Price	TP	Upside	2020 P/E (x)	2021 P/E (x)	2020 EV/EBITDA (x)	2020 EPS gth (%)	2020 P/B (x)	2020 ROE (%)	2020 DY (%)
TCOM	Trip.com Group	Retailing	N	28.1	27.0	-4%	na	23.9	na	-145%	1.2	-3%	0.0%
0780.HK	Tongcheng-Elong	Retailing	O	14.5	17.0	17%	25.8	13.6	18.3	-31%	2.1	8%	0.0%
AOT.BK	AOT	Transportation	O	54.0	62.0	15%	248.1	450.4	81.8	-77%	5.4	2%	0.2%
MAHB.KL	Malaysia Airports	Transportation	O	5.3	7.3	39%	38.8	29.6	7.0	-57%	1.0	3%	1.3%
BDMS.BK	Bangkok Dusit	Health Care	O	20.1	24.5	22%	52.0	33.7	23.7	-39%	3.8	7%	1.0%
IHHH.KL	IHH	Health Care	O	5.6	6.3	12%	106.4	43.9	20.8	-50%	2.2	2%	0.2%
BABA.N	Alibaba	Retailing	O	265.8	309.0	16%	34.7	29.7	29.9	22%	6.4	18%	0.0%
JD.OQ	JD	Retailing	O	75.0	80.0	7%	47.1	37.2	48.1	52%	5.1	11%	0.0%
2331.HK	Li Ning	Consumer	N	32.2	29.0	-10%	44.8	33.0	26.5	4%	8.5	19%	0.7%
1515.HK	CR Medical	Health Care	O	5.6	4.5	-19%	13.6	12.2	6.0	22%	1.0	8%	0.0%
NFH	New Frontier Health	Health Care	O	8.2	10.6	30%	na	188.0	29.9	73%	1.0	-3%	0.0%
PHG.AS	Philips Kon	Health Care	N	42.5	41.0	-4%	23.1	20.4	11.3	-5%	3.0	13%	2.1%
SHLG.DE	Siemens Healthineers	Health Care	O	39.2	44.0	12%	24.3	21.3	13.4	0%	3.8	16%	2.0%
FMEG.DE	Fresenius Medical Care	Health Care	N	72.9	81.0	11%	14.6	13.7	8.4	13%	1.7	12%	1.6%
2202.HK	Vanke	Real Estate	N	25.7	27.4	7%	5.7	5.0	1.4	15%	1.2	20%	5.2%
2318.HK	Ping An (H)	Insurance	O	84.0	103.0	23%	9.8	8.2	9.2	-9%	1.7	17%	2.9%
2628.HK	China Life (H)	Insurance	O	18.8	30.0	59%	10.0	8.9	20.5	-18%	1.1	11%	3.8%
1299.HK	AIA Group	Insurance	O	75.1	82.0	9%	27.3	16.7	17.6	-36%	2.0	7%	1.8%
PRU.L	Prudential	Insurance	O	1,215.0	1,350.0	11%	8.5	7.7	-	9%	1.8	21%	2.4%

Note: Priced as of 21 August 2020. O = Outperform, N = Neutral.

Source: Refinitiv, Credit Suisse estimates

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Baby boomers are retiring

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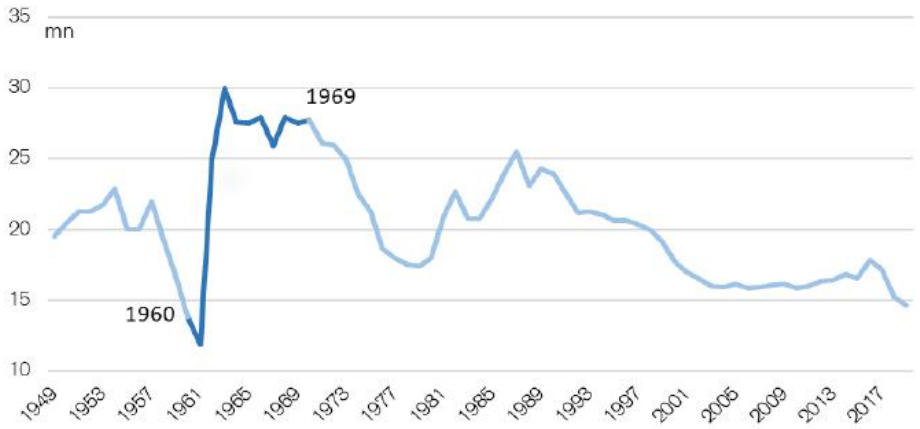
Ageing is undoubtedly a structural long-term growth theme in our view. With ageing in China becoming an inevitable reality, it is time to discuss what challenges we face and how we should position to benefit from such a significant demographic trend. The 1960s' generation is retiring now, not only bringing great opportunities for businesses that serve them well, but also raising questions whether China can support such a significant demographic move.

Figure 9: Annual births in China peaked out in the 1960s



Source: Wind, Credit Suisse estimates

Generation 60s in China is a unique group of people, if not the luckiest in Chinese history

Generation 60s (GEN60s) in China is a unique group of people, if not the luckiest in Chinese history. They were born right after the "Three-year Natural Disaster" in 1959-61. They were too young to be affected by the Cultural Revolution of 1966-76. Deng Xiaoping launched the Reform and Opening up programme in a very timely manner in 1978 right after Gaokao (college entry examination) was resumed in 1977. Private companies were legally allowed to set up in 1988. China started establishing the Shenzhen Special Economic Zone and Pudong New Area, with two stock exchanges set up in the early 1990s. China entered the World Trade Organisation (WTO) in 2001 and became the world's factory shortly afterwards. Property prices started to rise after the market reforms of public housing in 1998, before a liquidity-driven boom since 2009. This generation is getting ready to retire as China becomes the second-largest economy in the world, or arguably already the largest based on PPP (purchasing power parity).

Figure 10: Key milestones for the generation born in the 1960s

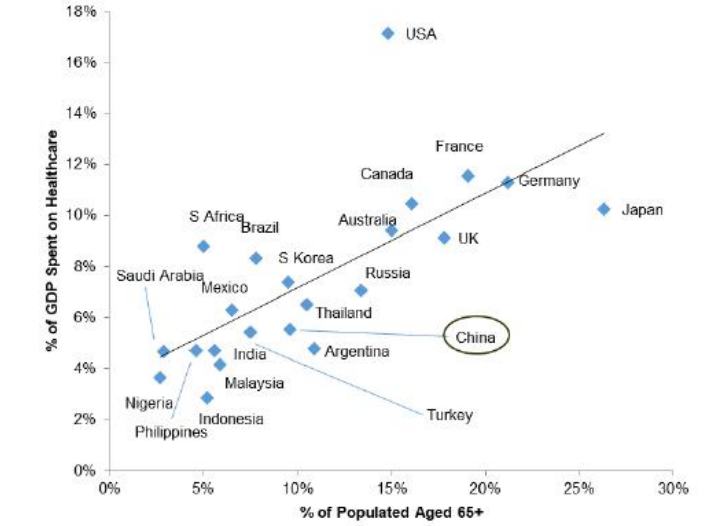
Year	Age	Event
1976	7-16	Cultural Revolution ended
1977	8-17	Gaokao (college entry examination) resumed
1978	9-18	Reform and Opening up programme launched
1980	11-20	Shenzhen Special Economic Zone established
1988	19-28	Private companies recognised legally
1990	21-30	Shanghai Stock Exchange and Shenzhen Stock Exchange founded
1992	23-32	Pudong New Area set up
1998	29-38	Commercialisation of housing took place

Source: Credit Suisse

End markets likely to benefit from this theme include travel, sportswear, e-commerce, property, healthcare and financial services. When China has an increasing number of people over 65 years old, GDP spend on health care would definitely go up and tend to move towards the level of developed countries such as the US, France, Germany, Canada and Japan. We should see similar patterns in hospital beds for the elderly and expect substantial upside in China with the ageing population.

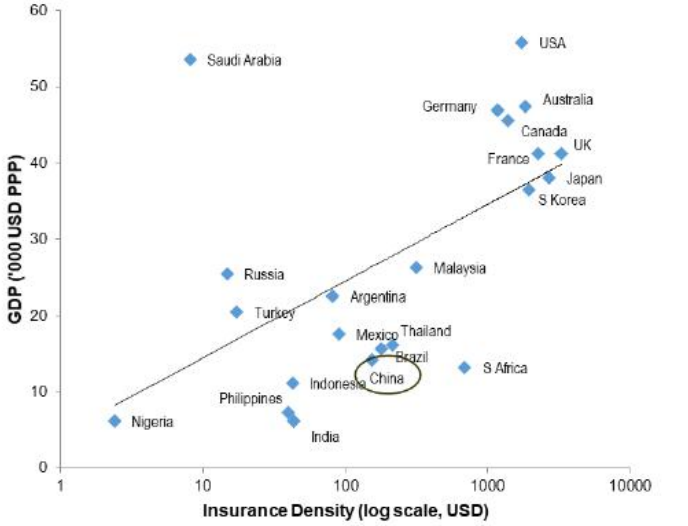
The need for life and health insurance increases with age, which provides a structural tailwind for life and health insurance providers globally. China has seen a rapid growth of national wealth with GDP per capita soaring from US$2,100 to US$10,000 over the past ten years. As people become wealthier and are able to meet their basic needs (such as food and clothing), they tend to upgrade their lifestyle and have an increasing appetite for safety such as financial security and wealth protection. According to Swiss Re, the international experience suggests insurance spending follows the 'S-Curve': premium growth accelerates when GDP per capita ranges from US$5,000 to US$35,000. At US$10,000, the middle class has started to emerge in China and they have a lot of ground to make up in insurance coverage.

Figure 11: 65+ population vs healthcare expenditure



Source: UN, World Bank, Credit Suisse

Figure 12: Average insurance density (premium/capita) vs GDP/capita



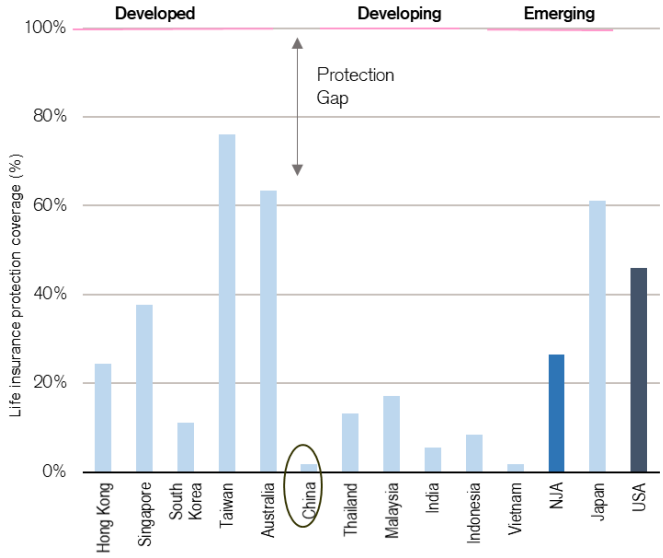
Source: World Bank, SwissRe, Credit Suisse

For life and health insurance, China has one of the largest protection gaps in Asia, mainly due to the size of its population, low affordability of medical spending and the persistent issue of a low replacement rate of pension. With China's protection gap staying widened, and larger than many other regional markets, we see huge potential for the development of commercial insurance (including pension) in the future.

For the pension business in particular, the protection gap is defined as the difference between the present value of the yearly lifetime income needed to sustain a reasonable standard of living and the actual amount that is saved for retirement plus the present value of pay-as-you-go contributions over a 40-year horizon, according to the Geneva Association. Demographic factors are generally the main cause for pension-protection gaps. Changes in the old-age dependency ratio (which measures the number of elderly people as a share of those of working age) challenge most pension systems across various markets.

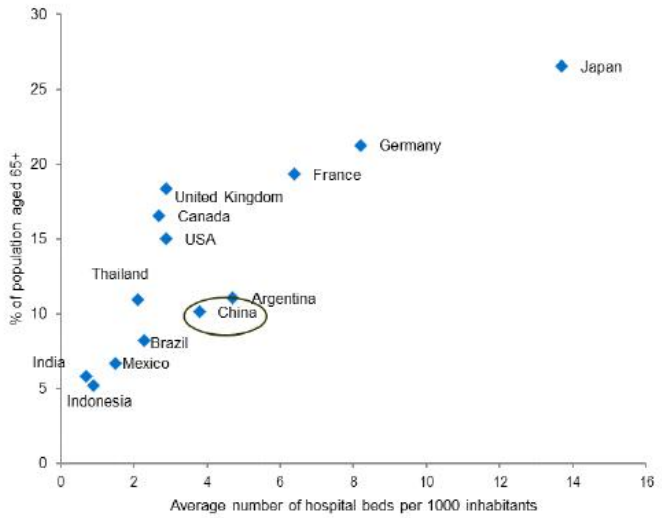
An increasing need for senior care requires senior centres and hospitals. Private institutions have a bigger role to play, to complement public hospitals and serve the needs of people seeking differentiated and quality service.

Figure 13: Life insurance protection gap across Asia



Source: SwissRe, American Council of Life Insurers

Figure 14: Average number of hospital beds/1,000 individuals relative to % of population above age 65

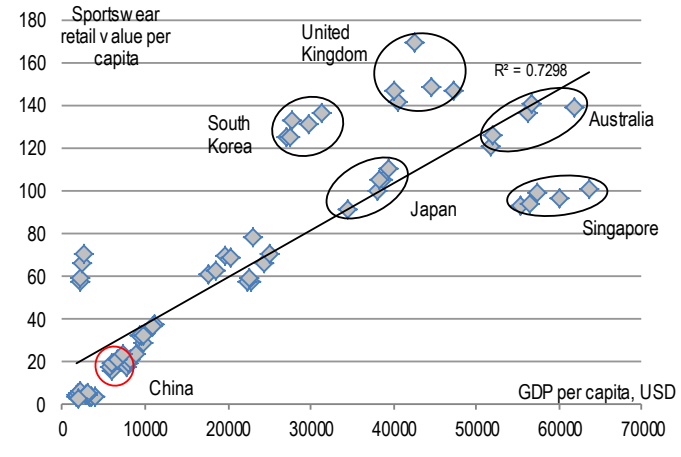


Source: World Bank

As evidenced in developed markets, we believe that ageing would be a strong tailwind for travel and leisure related products and services, as baby boomers enjoy a combination of greater disposable income and more free time as they retire.

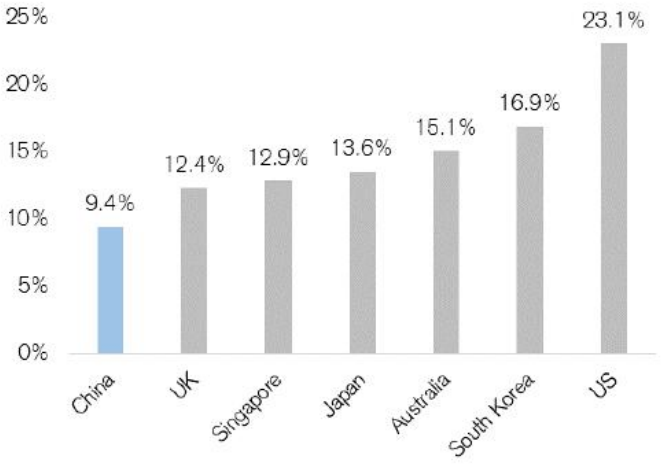
China remains at the low-end of the trend line of sportswear retail value per capita against GDP per capita, suggesting that structural long-term growth is still intact for the China sportswear sector. China's sportswear retail sales market contribution has increased over the past five years, from 6.7% in 2013 to 9.4% in 2018, but is still comparatively lower than other Asian markets like Singapore at 12.9%, Japan at 13.6% and South Korea at 16.9%, suggesting more upside over the long term as the economy continues to grow. Moreover, supportive government policies such as "Healthy China 2030" should help drive industry growth as it encourages people to exercise more and be healthy.

Figure 15: Long-term structural growth remains intact



Source: Euromonitor, Credit Suisse estimates

Figure 16: Sportswear retail sales as a % of total apparel and footwear sales in 2018

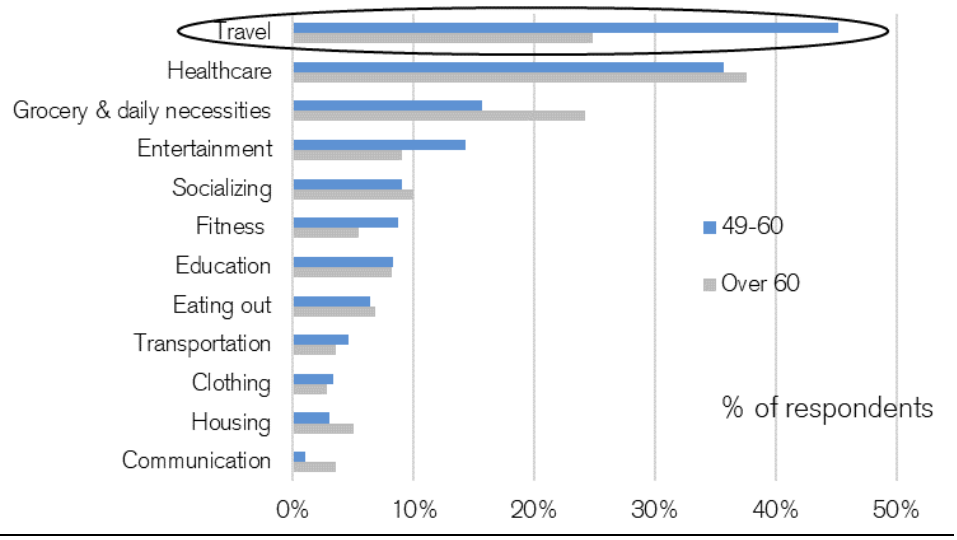


Source: Euromonitor, Credit Suisse estimates

Wealthier, more confident and willing to pay for quality

The GEN60s are wealthier than other generations, having benefited from improving education, China's reform and opening programme and globalisation post WTO entry. They are also more confident and tend to be more willing to pay for quality. Based on CS' CQi survey, GEN60s tend to travel more (increasingly overseas and likely for medical purposes), spend on healthcare —hopefully with higher quality, entertain themselves more in their own way and pay more attention to fitness.

Figure 17: In what areas are you spending more or expecting to spend more after retiring?



Note: CQi is a product of Credit Suisse APAC Equities and not part of Credit Suisse Equity Research
Source: CQi survey

Travel

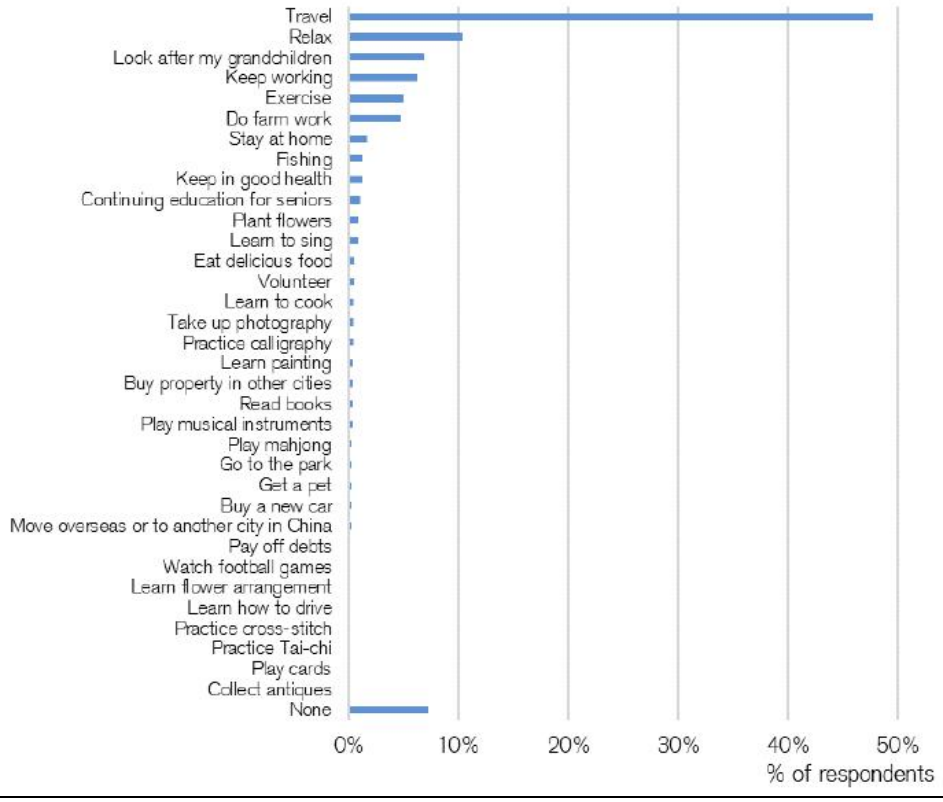
We believe travel demand could see tailwinds from the retirement wave of baby boomers, as retirees generally have a greater appetite for leisure trips thanks to more flexible schedules and a lower propensity to save, despite short-term disruptions arising from the pandemic. We also see room for the travel spending of baby boomer retirees to expand on the back of rising disposable incomes and increased online penetration.

Growing appetite for travel demand after retirement

Thanks to flexible schedules and a lower propensity to save, the appetite for leisure travel usually grows after retirement. Compared to other age groups, retirees usually show a higher propensity to travel, as well as being more generous in their travel budgets.

A survey by the Credit Suisse CQi team found that leisure travel is the most desired activity after retirement for baby boomers. Nearly half of respondents in the survey mentioned leisure travel when asked about their most wanted activity after retirement. Meanwhile, data from Trip.com, a leading online travel agency in China, also found a strong correlation between travel spending and age groups. Travellers born in the 1950s and 1960s had the highest average holiday travel spending among all age groups, and their average spending is ~25% higher than those born in the 1980s and 1990s.

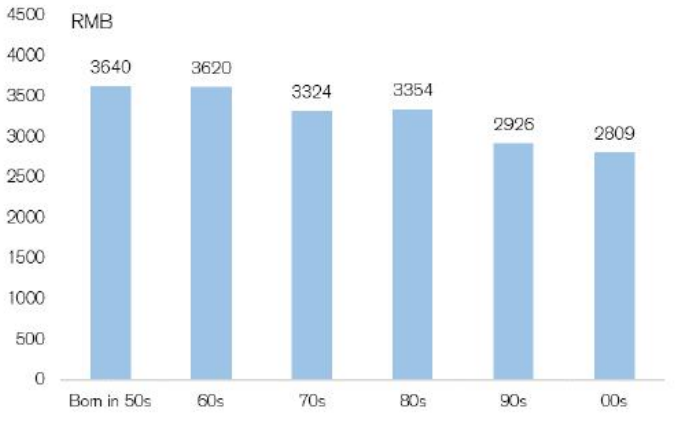
Figure 18: To baby boomers—What would you like to do most after you retire?



Note: CQi is a product of Credit Suisse APAC Equities and not part of Credit Suisse Equity Research.
Source: CQi survey.

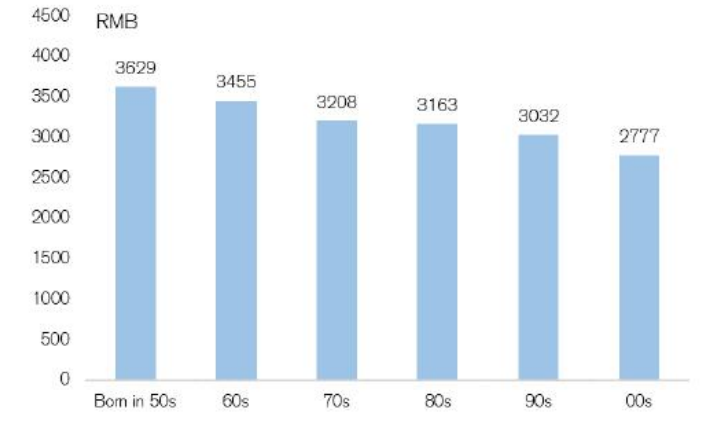
As the baby boomers retire in successive waves over the next decade, this should help lift average travel frequency as well as average spending and thus support growth for overall travel demand.

Figure 19: 2019 National Day holiday—average per-capita travel spend by age group



Source: Trip.com

Figure 20: 2019 Labour Day holiday—average per-capita travel spend by age group



Source: Trip.com

Room for retiree travel budgets to further expand

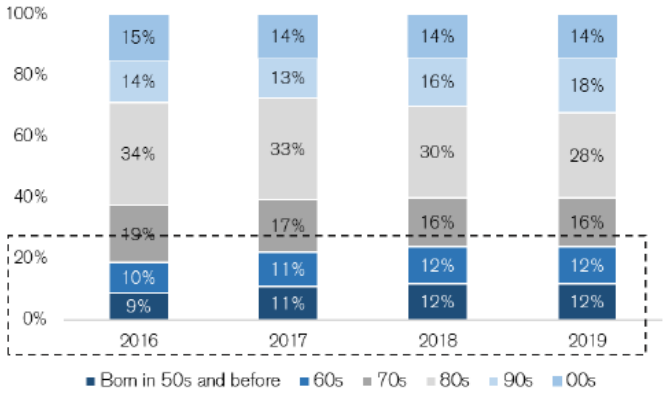
On top of tailwinds from a demographic shift, we also see room for the current average travel budget of retirees to further expand. This would be mainly driven by rising disposable incomes and increases in online penetration.

Compared to current retirees, we believe those born in the 1960s, on average, will enjoy higher salaries when they retire, partly thanks to the advancement in the urbanisation rate. Higher disposable incomes after retirement, as well as lifestyle changes that took place over the past decade, would lead to increased travel demand, in our view. According to the Credit Suisse CQi survey, respondents aged between 49 and 60 expect to take an average of 6.3 trips per year upon retirement, compared to an average of 3.5 trips for current retirees.

The same survey also found that only 19% of the respondents born in the 1960s have travelled abroad, but nearly half of them are planning outbound trips when they retire. Data from Trip.com shows that those born in the 1960s account for 12% of total outbound traffic in 2019, the same as the entire current retiree population (born in the 50s and before), and has seen a steady increase over the past couple of years.

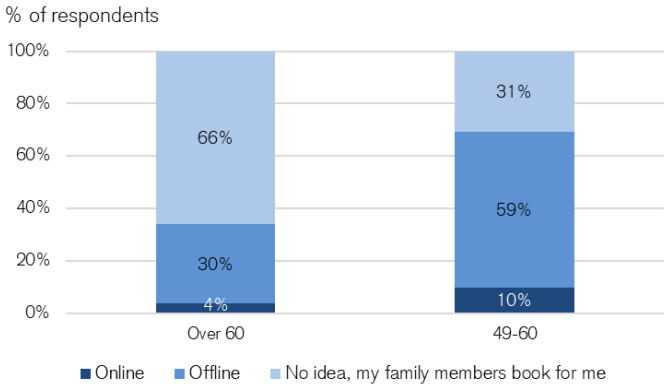
Moreover, compared to the current retiree group, those born in the 60s are more proactive in making travel decisions: the CQi survey shows that ~70% of them prefer booking trips by themselves, while a majority of current retirees are clueless about the booking process. Even so, online travel penetration among baby boomers remains low, at only ~10% vs over 30% at the industry level. Thus, we see room for online travel penetration to catch up on the back of rising mobile penetration and online platforms' effort to further penetrate into more senior age groups. Higher online penetration should help further release travel demand thanks to the convenience and product variety the online channel offers, in our view.

Figure 21: Outbound traffic mix by age group (2016-19)



Source: Trip.com

Figure 22: You are accustomed to booking travel product __:

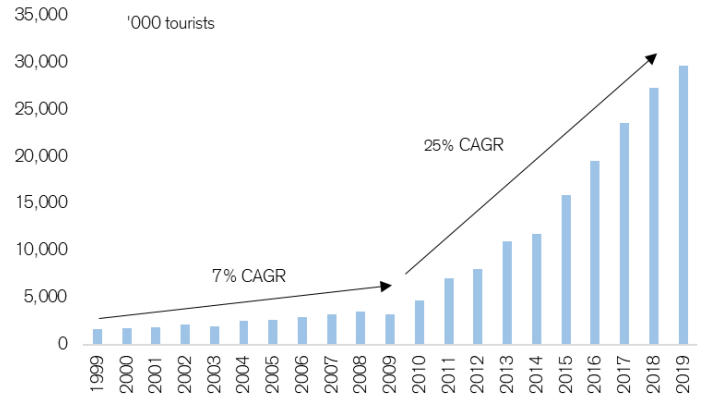


Source: CQi is a product of Credit Suisse APAC Equities and not part of Credit Suisse Equity Research.

More ready to travel out of China

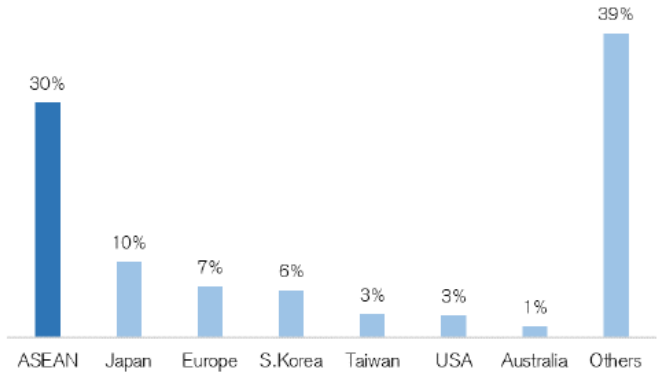
Over the past two decades, ASEAN countries have witnessed a tremendous increase in Chinese tourists. Between 1999 and 2019, the number of inbound tourists from China experienced a 20-year CAGR of 16%, with the latter decade accelerating to a 25% CAGR (2009-19) versus 7% CAGR in the earlier decade (1999-2009).

Figure 23: ASEAN's inbound tourists from China experienced a 16% CAGR from 1999-2019



Source: CEIC, ASEAN Secretariat, Credit Suisse

Figure 24: ASEAN commanded a 30% share of Chinese outbound traffic in 2019

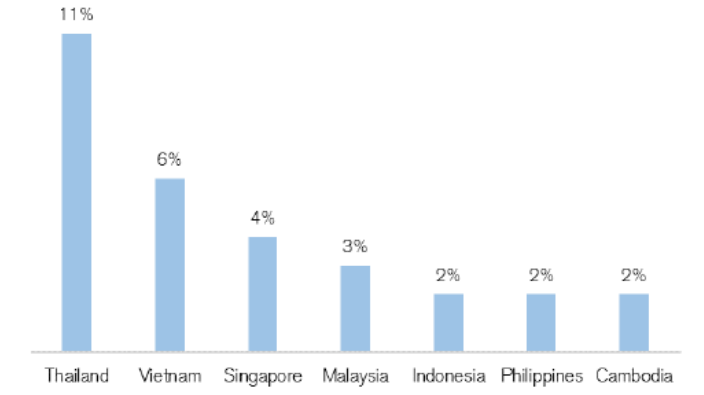


Source: CEIC, Credit Suisse

In 2019, ASEAN was the most visited destination by outbound China tourists, commanding a 30% share. This was followed by Japan (10%), Europe (7%) and South Korea (6%). Comparatively, in 2015, ASEAN commanded a share of 25%, followed by South Korea at 12%, Europe 11% and Japan at 5%. In ASEAN, Thailand commanded the largest share at 11%, followed by Vietnam (6%), Singapore (4%) and Malaysia (3%). Across ASEAN, Chinese tourists represent the largest share of total tourist arrivals in Vietnam and Thailand at 32% and 28%, respectively.

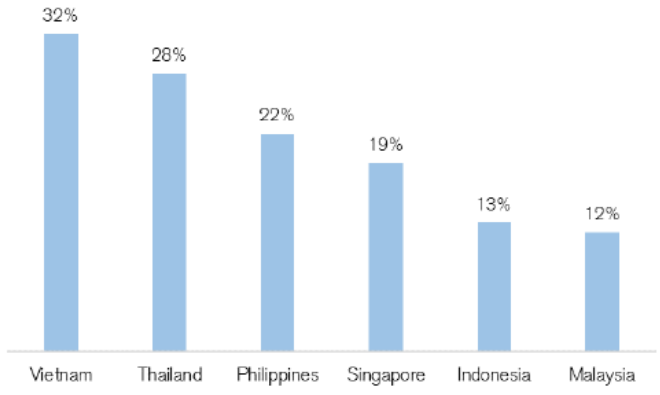
ASEAN region was the most visited destination by outbound China tourists, commanding a 30% share

Figure 25: Share of Chinese outbound traffic into ASEAN (2019)



Source: CEIC, Credit Suisse

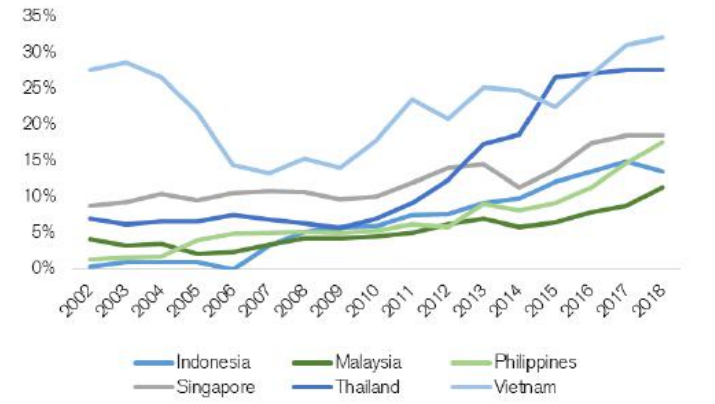
Figure 26: Chinese tourist arrivals as % of total tourists (2019)



Source: CEIC, Credit Suisse

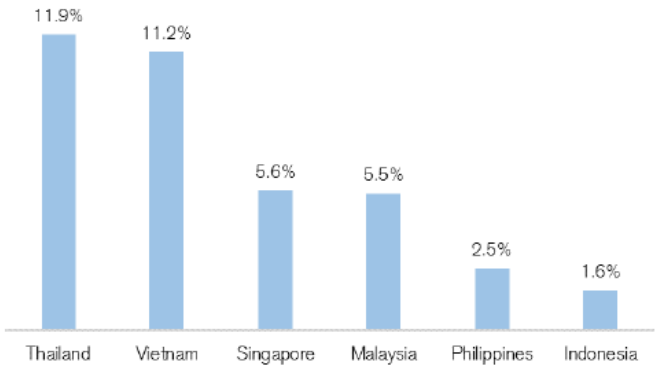
Chinese tourists as a percentage of total arrivals have grown across all key ASEAN markets since 2002. This is most noticeable in the Philippines, where the share of Chinese tourist arrivals has grown from 1% in 2002 to 22% in 2019. Thailand experienced an increase in the share of Chinese tourists from 7% to 28%. Tourist receipts as a percentage of GDP are highest in Vietnam and Thailand, representing 11-12% of GDP in each country.

Figure 27: Chinese tourist arrivals as a % of total tourists



Source: Company data, Credit Suisse

Figure 28: Tourism receipts as a % of GDP



Source: Company data, Credit Suisse

Potential for ASEAN share to increase further

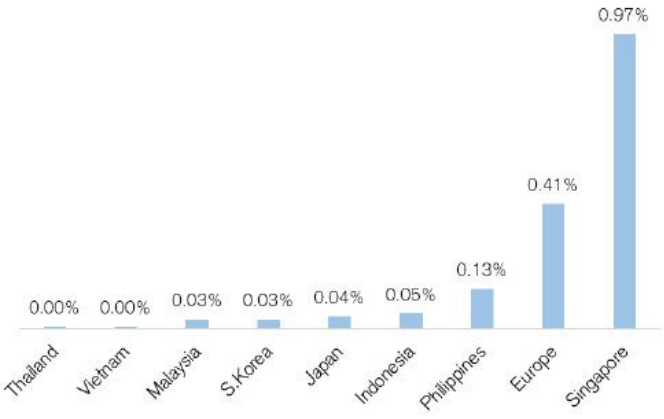
While the ASEAN travel industry has suffered catastrophically during the pandemic this year, we expect this to be a temporary blip and see the potential for growth once the pandemic is behind us, especially from the China market. We maintain our bullish view on ASEAN's growth in outbound Chinese tourism post pandemic.

The size of the tourism market for Chinese senior citizens could potentially double, according to the CQi survey

According to the CQi team, **the size of the tourism market for Chinese senior citizens could potentially double** when these baby boomers become retirees over the course of this decade, if the appetite for travel among the rising retirement generation holds firm. The CQi survey shows the average frequency of leisure trips is 3.5 times per year among current retirees, while the respondents aged between 49 and 60 expect to take an average of 6.3 trips per year after retiring. Both domestic long-distance travel and outbound travel are likely to double for baby boomers when they retire. At present, only 19% of the respondents born in the 1960s have travelled abroad, but nearly half of them are planning outbound travel when they retire.

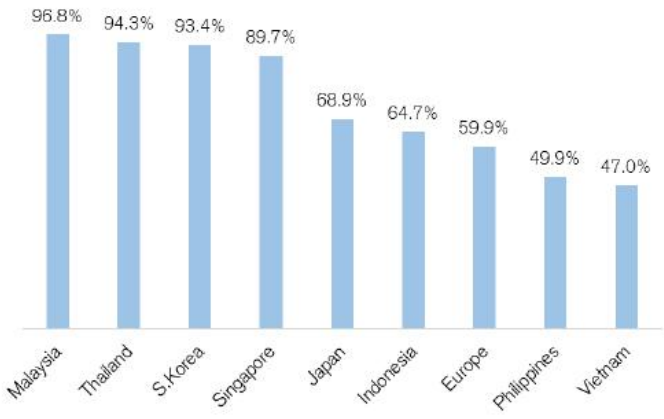
One of the future considerations when choosing a tourism destination, in our view, would be the severity of the pandemic and how the respective countries have handled the pandemic. If we compare China to other large nations, such as the US and those in Europe, the former has arguably done a relatively better job of containing the outbreak while the latter has experienced a virus spread across many hotspots and across the countries. We believe this could be one of the deterring factors for Chinese visitors planning to travel, particularly families with young children and the elderly. ASEAN countries, particularly the ones with a larger share of Chinese tourist—i.e. Thailand, Vietnam and Malaysia—have proven to be quite effective in containing the outbreak and are thus perceived as "safer" tourism destinations.

Figure 29: Infection rate is the lowest in Thailand, Vietnam and Malaysia among ASEAN countries



Source: Worldometer, Credit Suisse

Figure 30: Recovery rate is the highest in Malaysia and Thailand



Source: Worldometer, Credit Suisse

We note that ASEAN countries have also generally been good in implementing measures to encourage Chinese tourists. We summarise below the key measures which are mostly related to the ease of obtaining a visa.

Figure 31: Most key ASEAN countries have allowed easier visa requirements for China tourists

Countries	Supportive measures for Chinese tourists
Malaysia	Chinese tourists are able to enter the country visa-free for 15 days starting 1-Jan-2020
	Chinese citizens can apply for an eVisa which allows them to enter Malaysia for 30 days
Indonesia	Visa-free policy for tourists visiting for 30 days from 30 countries, including China
Thailand	Thai tourism officials have been floating the idea of granting visa-free entry to Chinese tourists as part of Thailand's tourism revival scheme
Vietnam	Currently holding talks to ease the entry of Chinese, South Korean and Japanese citizens post COVID-19
Singapore	Implemented Green/Fast Lane agreements with China and Malaysia to ease the entry of business travellers into the country
Philippines	Prior to CNY 2020, Chinese tourists were granted a six-month temporary visitor visa upon arrival which could be converted into a work visa. Now, they will be eligible for a non-extendable 30-day visa that cannot be converted.

Source: Star, Jakarta Post, SCMP, Nikkei, Credit Suisse

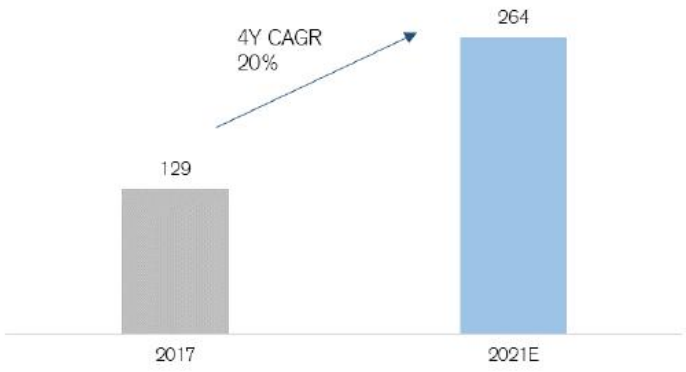
Medical tourism a potential bright spot

China Economic Net in 2019 estimated that the total market value of China's outbound medical tourism would grow from Rmb129 bn in 2017 to Rmb264 bn by 2021. According to the CQi survey, ~36% of the China boomer group plans to increase spending on healthcare after retirement and 16% are willing to travel overseas to seek medical treatment.

Total market value of China's outbound medical tourism is expected to grow to Rmb264 bn by 2021

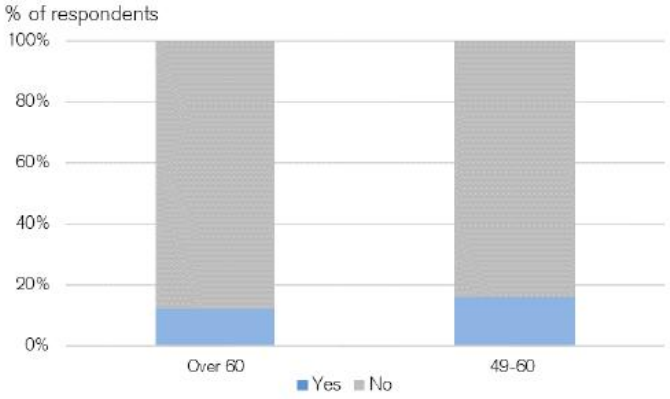
While the US tops the list of countries that the respondents would consider visiting for medical services, we see scope for this preference to change as the COVID-19 pandemic drags on. As the US (and Europe) continue to battle rising COVID-19 infection curves, selected countries in South-East Asia have kept infection rates very low, which we opine helps in elevating ASEAN's profile in regards to healthcare.

Figure 32: China's outbound medical tourism market value (Rmb bn)



Source: China Economic Net

Figure 33: If you can afford it, would you go overseas for medical services?



Note: CQi is a product of Credit Suisse APAC Equities and not part of Credit Suisse Equity Research. Source: CQi survey

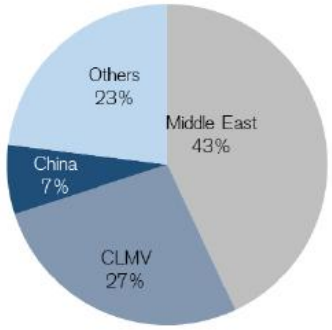
At present, the majority of Chinese medical tourists travel to Asia for relatively minor treatments, such as cosmetic surgery, IVF, dental and health check-ups. However, we see a propensity for more high-acuity treatment to be sought. GGM, in its 2018 China Outbound Medical Tourism report, estimates that there would be ~100k more patients travelling for more high-acuity treatment by 2020, notably cardiology, oncology, neurology, fertility treatments, etc. With the US and Europe being "high-risk" regions in terms of the pandemic severity, retired boomers would likely avoid such places and choose relatively "COVID-safe" destinations to seek medical services, such as ASEAN. Within ASEAN, we see Thailand, Singapore and Malaysia as potential beneficiaries.

Thailand: Well-established market for Chinese tourists a supportive factor

As mentioned earlier, Thailand has the highest market share of outbound Chinese tourists (11%) visiting ASEAN countries. This should provide some advantage to a certain degree.

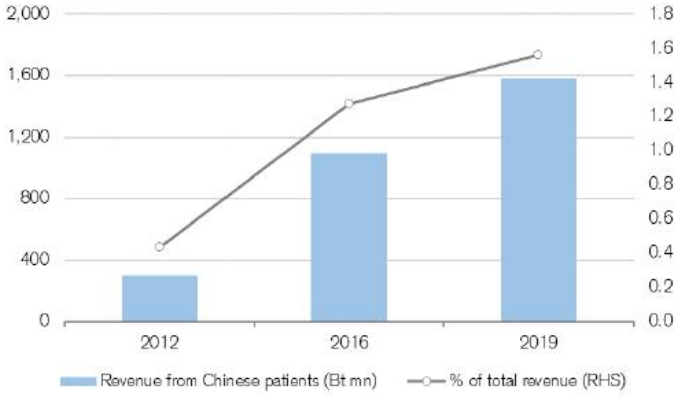
While Chinese tourists account for 28% of total international tourist arrivals to Thailand, the contribution from Chinese medical tourists is relatively small; out of total international patient revenue at four key Thai hospitals (BH, BDMS, BCH and CHG), China accounts for only 7% (Figure 34). Nonetheless, growth has been quite significant over 2012-19, with revenue from Chinese patients at BH and BDMS combined increasing five-fold (Figure 35). The majority of treatments sought by Chinese patients are IVF, wellness/anti-ageing and medical check-ups.

Figure 34: International patient revenue breakdown



Source: BDMS, BH, BCH, CHG, Credit Suisse estimates

Figure 35: Chinese patient revenues at BDMS and BH



Source: BDMS, BH, Credit Suisse

We believe that Thailand will be one of the major beneficiaries of Chinese baby-boomer retirees' higher willingness to seek medical treatment overseas and their rising wealth. Thailand is often cited as one of the best places for medical tourists in market surveys. For instance, in the latest survey by Patients Beyond Borders, Thailand is included in the top-ten places (Figure 36). Thailand is also considered a value-for-money place for medical tourists. According to Patients Beyond Borders, Malaysia is the third most affordable healthcare destination in Asia, and the second most affordable within Southeast Asia (please refer to Figure 41 below).

Figure 36: Patients Beyond Borders' recommended 10 cities for medical tourists in 2020

City	Country
Bangkok	Thailand
Budapest	Hungary
Cancun	Mexico
Escazu	Cota Rica
Kuala Lumpur	Malaysia
Mumbai	India
Seoul	South Korea
Bali	Indonesia
Istanbul	Turkey
Barcelona	Spain

Source: Patients Beyond Borders, Credit Suisse

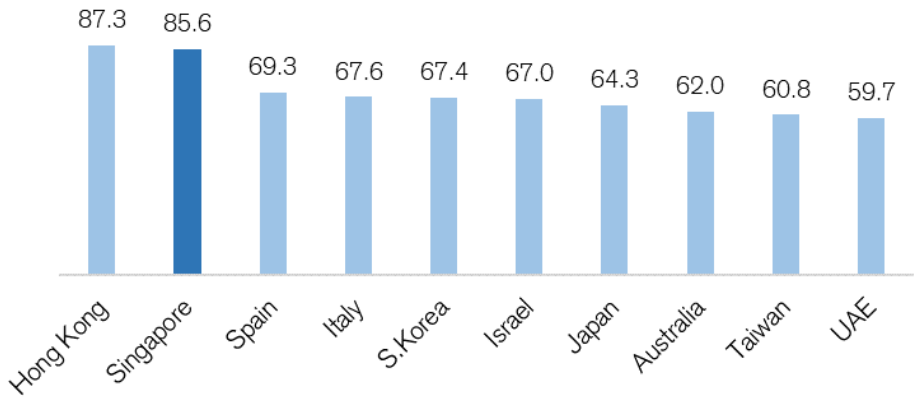
Alliances with health insurance providers should provide additional support. Recently, BDMS has formed a partnership with Ping An Health Insurance, with treatments of almost all critical illnesses at BDMS's hospital networks covered under policies issued by Ping An Health Insurance. We believe that insurance coverage from a provider in China is a crucial step that could drive demand for treating high-acuity illnesses in Thailand.

Based on the outbound tourism market value of Rmb129 bn in 2017 estimated by China Economic Net, Thailand seems to have less than a 0.5% market share of this pie and thus growth potential looks interesting over the longer term.

Singapore: A high-end medical care destination

The leader in the WHO's ranking of healthcare in Asia, Singapore offers one of the most efficient healthcare systems in the world. Singapore, together with Japan, Germany, the US and the UK, is seen as the pinnacle of quality for high-end specialty care treatment, as well as treatments for life-threatening diseases, e.g. neurological and cardiovascular cases.

Figure 37: Singapore has the second most efficient healthcare system in the world



Source: Bloomberg 2018 Healthcare Efficiency Index

Since 2015, the Singapore Tourism Board (STB) has stopped providing official figures for Singapore's medical tourism receipts. According to The Straits Times, medical tourism spend has accounted for <4% of Singapore's overall tourism receipts in recent years. It is estimated, however, that Singapore welcomes ~500,000 medical tourists every year and generated ~US$78 mn in healthcare travel revenue in 2018. China is the third-largest source market for Singapore medical tourism, behind Indonesia (#1) and Malaysia (#2).

While not as cost-competitive relative to its regional peers, Thailand and Malaysia, Singapore is still deemed an attractive medical tourism destination. Singapore was ranked second in the 2020-21 Medical Tourism Index (MTI) ranking, based on its attractiveness as a destination, safety, and quality of care. In fact, we see it as an attractive alternative for the affluent Chinese boomer segment. While wealthy Chinese have traditionally favoured the US and Europe as their medical destinations, it is likely that the current COVID-19 situations in these countries have changed their travel plans, at least in the near term. As a result, we believe it is likely that Singapore may see an influx of affluent Chinese health travellers. Furthermore, according to the CQi survey, baby boomers are more affluent than the current retiree group in China, with ~11% more family assets in RMB terms.

Figure 38: Baby boomers in China (aged 49-60 years) are more affluent than current retirees

Source: CQi is a product of Credit Suisse APAC Equities and not part of Credit Suisse Equity Research

Figure 39: 2020-21 Medical Tourism Index ranking

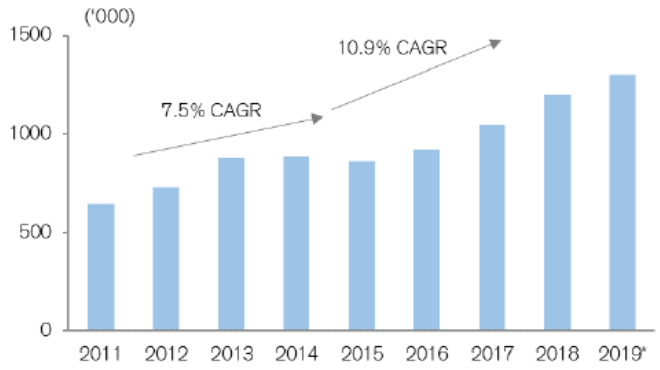
Rank	Country	Score
1	Canada	76.47
2	**Singapore**	**76.43**
3	Japan	74.23
4	Spain	72.93
5	UK	71.92
6	Dubai	71.85
7	Costa Rica	71.73
8	Israel	70.78
9	Abu Dhabi	70.26
10	India	69.80

Source: International Healthcare Research Center

Malaysia: The up-and-coming contender

Hailed as the "hidden jewel of Asia" by IMTJ, Malaysia is beginning to grow in recognition as a popular medical tourism destination, on the back of its service quality and affordability. According to Patients Beyond Borders, Malaysia is the second most affordable healthcare destination in Asia, and the most affordable within Southeast Asia. Top treatments sought by healthcare travellers in Malaysia include health screenings, fertility, cardiology, orthopaedics and, increasingly, oncology and neurology.

Figure 40: Malaysia's inbound medical tourists experienced a 2011-19 CAGR of 9.2%



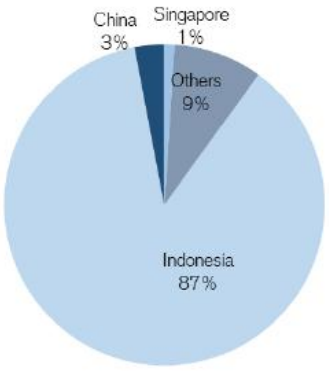
* 2019 is an estimated figure. Source: MHTC.

Figure 41: Malaysia is the most affordable healthcare destination within ASEAN

Source: Patients Beyond Borders (2018)

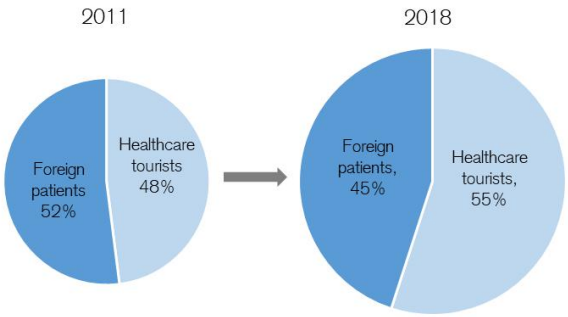
China is currently the second-largest source of Malaysia's inbound medical tourists; however, it only made up ~3% of Malaysia's medical tourism revenue in 1H19. We see room for this to expand over time, as China has been identified as one of the key focus markets. In addition to affordable medical procedure costs, Malaysia's private hospitals are known to offer excellent patient comfort, with five-star rooms that resemble hotel suites rather than hospital rooms.

Figure 42: China currently makes up ~3% of Malaysia's medical tourism revenue (1H19)



Source: MHTC

Figure 43: Malaysia is attracting more patients from abroad due to the overall quality of its healthcare sector



Source: MHTC

Currently, Malaysia is seen as a popular destination for fertility treatments among the Chinese. However as awareness of Malaysia being a healthcare destination among Chinese increases, we see scope for other specialty areas to enjoy higher demand, such as cardiology. Apart from positioning itself as the Fertility Hub of Asia in 2017, it is also among the leading cardiology service providers within the region. Additionally, it was also deemed the "Best Country in the World for Healthcare" by International Living (Global Retirement Index 2015-19).

E-commerce

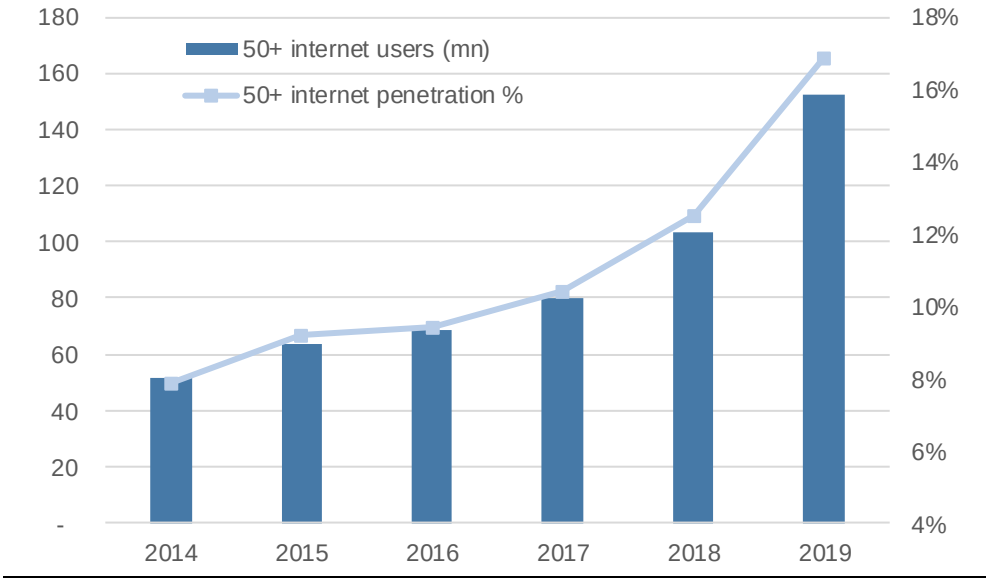
In 2019, a third of the Chinese population was aged 50 years and above (of which 200 mn were between 50 and 60, and 250 mn 60+ years), and the group is expanding by an additional 20 mn or so each year. As such, the "silver" cohort becomes a powerful group in overall consumption, including online.

153 mn people from the "silver" cohort are netizens, 16.9% of total netizens in China

Out of this 450 mn strong "silver" cohort, 153 mn are netizens, or 16.9% of the 904 mn total netizens in China in 2019, according to data compiled by CNNIC. Moreover, females dominate the user activities, with 57% of monthly active internet users being female, as opposed to 43%

male, based on May 2020 data from Questmobile. In terms of city distribution, 43% of "silver" netizens come from tier-1/2 cities, 25% from tier-3, and 32% from tier-4 and below.

Figure 44: Number of internet users and penetration of those over 50 years old



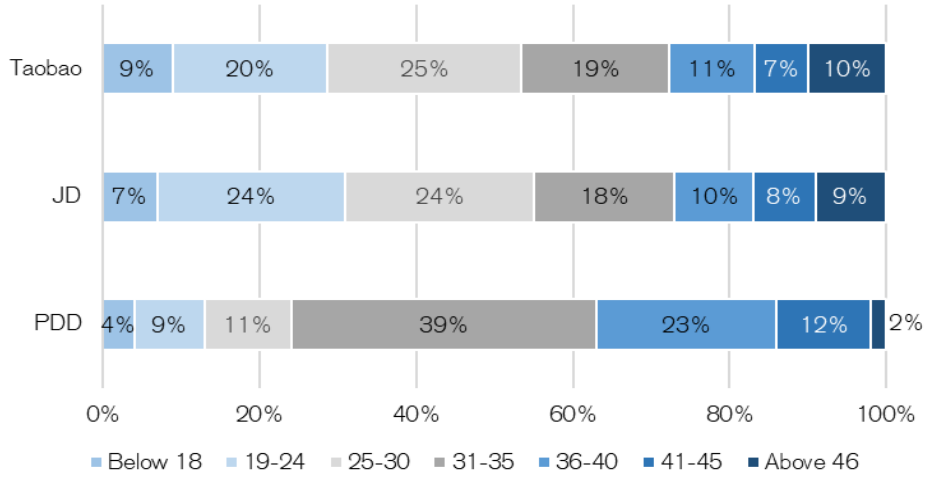
Source: CNNIC, NBS, Credit Suisse

Senior netizens prefer to spend their screen time on social, online video/music, newsfeed, and online shopping activities, with monthly screen time of 136 hours, only slightly shy of the national average of 140 hours, based on data from Questmobile. Online payment app Alipay is also among the top 5 most actively used apps, indicating increasing tech awareness when it comes to shopping and local activities. Data from Alibaba's National Holiday 2019 survey shows that the "silver" cohort not only knows how to order food deliveries, but also enjoys online shopping, loves to travel, and is willing to spend on high-end body check-ups and medical cosmetology.

Netizens from the "silver" cohort tend to place "quality" and "necessity" over "price" when shopping

Unlike younger generations, senior netizens in most cases have at least one to two apartments of their own, hence most of their disposable incomes are spent on healthcare, travel/leisure and to support their children/grandchildren. Therefore, they place "quality" and "necessity" over "price" when making shopping decisions. In terms of online shopping, data from Questmobile shows that Taobao and JD are the most commonly used e-commerce apps with around 10% of their active users being senior netizens, compared to a mere 2% for Pinduoduo. In our view, this is likely attributable to Taobao and JD's wider product selection (especially on healthcare, personal care and daily household products) and more branded product offerings, which tend to attract the trust of senior buyers. In comparison, senior users put less weight on value-for-money and white-labelled products that are most offered by Pinduoduo.

Figure 45: User split by age group, for major e-commerce platforms

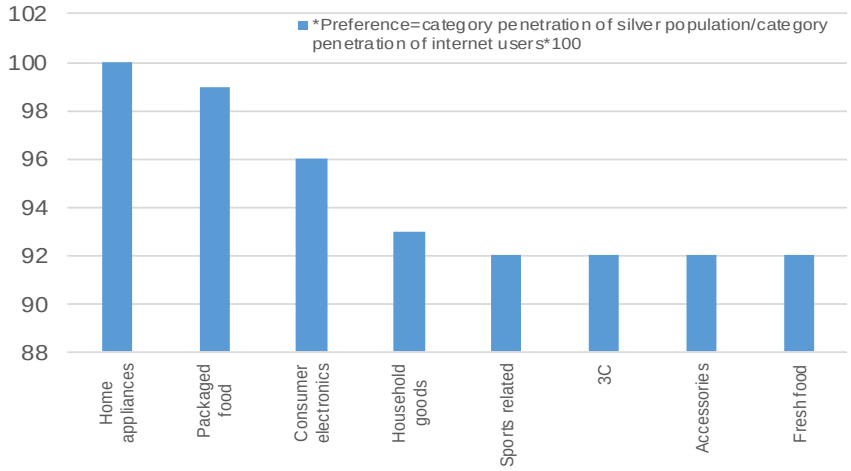


Source: Questmobile, Credit Suisse

According to the "Silver online consumption trend-2019" report produced by JD, the categories that attract most transaction volumes include apparel, food & beverage, household goods, outdoor sportswear and kitchenware. Another report from Questmobile ranked the categories that are most preferred by senior buyers when shopping online, with the top ranked being home appliance/consumer electronics/3C, food and sports-related products. This also showcases that senior shoppers are more brand-centric, quality-driven and love to spend on exercising.

As a result, we believe the diversified product offerings, wider selection of healthcare products, and more focus on branded products will continue to make Alibaba and JD the preferred shopping destination for senior citizens.

Figure 46: Most preferred categories when shopping online by senior buyers

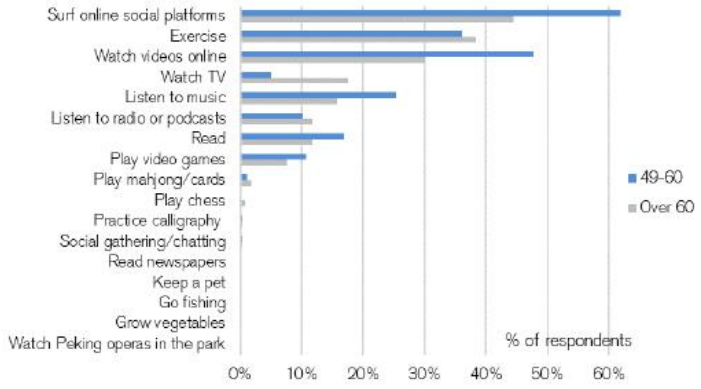


Source: Questmobile, Credit Suisse

Sportswear

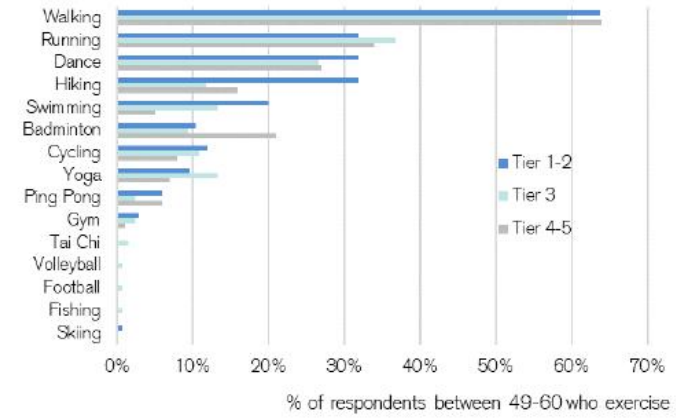
The CQi report highlighted that baby boomers spend over 35% of their daily entertainment activities on exercising, just behind their first choice of surfing online social platforms. After retiring, baby boomers expect that they will walk more, as exercise, followed by running and dancing. Residents in higher-tier cities are more inclined to hike and swim than those in lower-tier cities.

Figure 47: Your main daily entertainment activities are __ at present



Note: CQi is a product of Credit Suisse APAC Equities and not part of Credit Suisse Equity Research.

Figure 48: To baby boomers—What types of exercises do you plan to increase time and spending on after retiring?



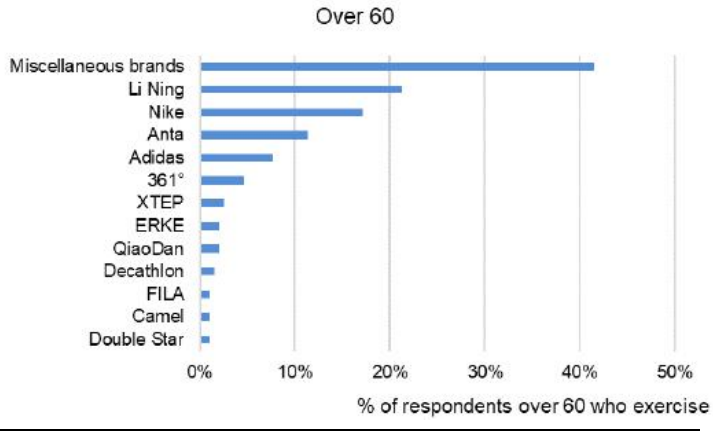
Note: CQi is a product of Credit Suisse APAC Equities and not part of Credit Suisse Equity Research. Source: CQi Survey

Baby boomers appear to have a higher brand awareness for sportswear than the retirees

According to the CQi survey, the baby boomers appear to have higher brand awareness for sportswear than the retirees. When asked which sportswear brands they buy, most retirees in the study mentioned miscellaneous brands, while the baby boomers listed Li Ning and Nike as their No.1 and No. 2 choices.

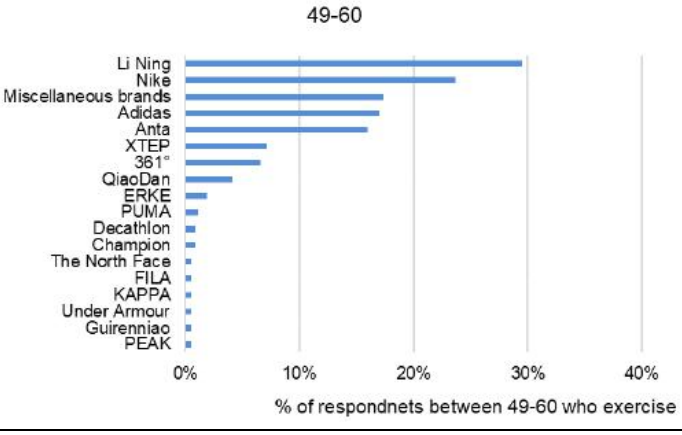
Among even younger generations, Nike is still more popular, according to a recent CQi study. CQi's sector report on sportswear published in July 2020 (a survey on 300+ sportswear consumers aged 34 on average, and 150 sportswear retailers), shows that despite the rising tension between China and the US, Nike is the top sportswear brand—wanted by around 60% of consumers in tier 1-2 cities and around 40% in tier 3-5 cities. Three quarters of the respondents in the big cities expressed to CQi that their interest in buying Nike will not be affected by political and diplomatic disputes.

Figure 49: To retirees—What are the main sportswear brands you buy?



Note: Miscellaneous brands refer to those unnamed brands or brands whose information CQi cannot find in searching. Brands with only one mention are omitted from the chart. CQi is a product of Credit Suisse APAC Equities and not part of Credit Suisse Equity Research.
Source: CQi Survey

Figure 50: To baby boomers—What are the main sportswear brands you buy?



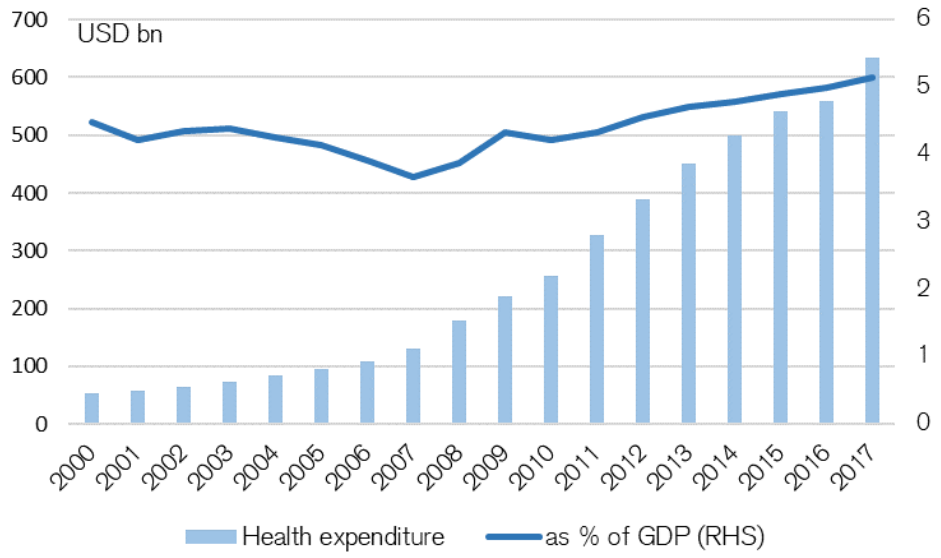
Note: Miscellaneous brands refer to those unnamed brands or brands whose information CQi cannot find in searching. Brands with only one mention are omitted from the chart. CQi is a product of Credit Suisse APAC Equities and not part of Credit Suisse Equity Research.
Source: CQi Survey

Healthcare

Healthcare expenditure in China has been growing at a fast pace (a 2000-17 CAGR of 16%). Out of China's total healthcare expenditure spending in 2016, 71.6% was allocated to the medical services sector. Medical services are the cornerstone of the healthcare industry, as almost all treatments and patient care are conducted by medical professionals in qualified clinics and hospitals. As a result, the medical services sector is the biggest contributor in terms of spending across the entire healthcare value chain. Within the China medical services sector, ~78% of revenue came from hospitals and ~15% came from primary healthcare institutions. It is apparent that hospitals are the dominant players in the medical services industry.

The medical services sector is the biggest contributor of spending across the healthcare value chain

Figure 51: Health expenditure in China and as % of GDP

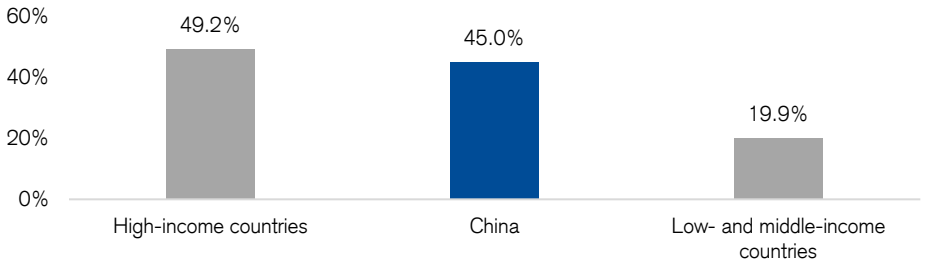


Source: Statista, Credit Suisse

Ageing population to have an increasing impact on hospital services

Hospital services spending growth in China can be attributed to a multitude of reasons including expanding consumer discretionary income, widening insurance coverage and greater access to healthcare across regions. Apart from these reasons, the ageing population is a key contributing factor as well. According to the WHO Global Burden of Disease study, growth in the number of elderly in the population (aged 60 and older) added substantially to a country's total disease burden. The study, which calculates a country's total disease burden by measuring disability-adjusted life years (DALY), found that in China, the older population accounted for 45% of total disease burden. Globally, this proportion is 49.2% in high-income countries and 19.9% in low- and middle-income countries. The study also finds that China's total disease burden is expected to increase at least by 40% by 2030E and one of the large contributing factors would be the ageing population and the higher DALY-associated diseases such as stroke, malignant neoplasms, ischemic heart diseases, respiratory disease, and diabetes mellitus, among others prevalent in the older population.

Figure 52: Burden of disease in China among older population (age 60+ and older)



Source: WHO Global Burden of Disease study

Chronic diseases that are a burden for the elderly, such as hypertension, heart disease, stroke, and cancer, have become increasingly predominant in the Chinese healthcare system and are expected to continue to increase with an ageing population in China. The baby-boomer population who have just entered their 60s are expected to contribute to higher hospital spending in China and the CQi survey results reinforce this trend as on-the-ground research, indicating China's baby boomers are increasingly more willing to pay for healthcare services and have a bigger appetite for healthcare services.

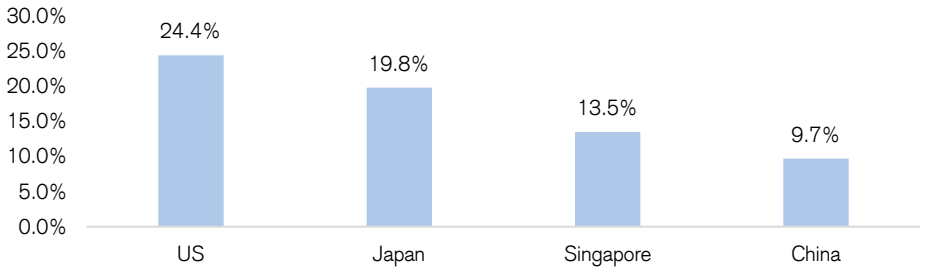
Opportunities in healthcare sectors

Public healthcare system could receive additional government funding and investment

In preparation for an ageing population in China, the government will need to provide funding to enhance the public healthcare system in China. In 2017, public health investment in China accounted for 9.7% of general government expenditure, compared with 24.4%, 19.8% and 13.5% in the US, Japan and Singapore. The COVID-19 outbreak has put further emphasis on the healthcare system as well as pressure for the government to increase funding.

In 2020, we have seen the central government announce several initiatives which indicate that public health has become more important priorities in local and provincial government policies. In April, the Ministry of Finance announced that it would allow special purpose bonds to be used towards public health investment and emergency medical facilities, specifically towards the construction and expansion of a primary hospital network in China as well as investment in ICU and respiratory ward facilities at hospitals.

Figure 53: Government healthcare expenditure as a % of general government expenditure in 2017



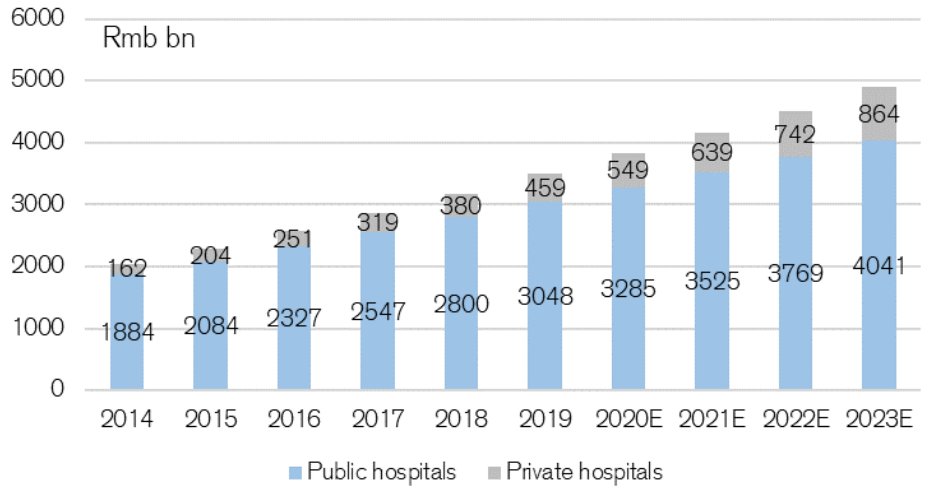
Source: IMF

Private hospitals appeal to patients looking for better-quality medical services

As the public healthcare system in China continues to face some of the constraints that limit its growth, the central government has issued a series of policies to create a more favourable environment for the development of private medical services. With the issuing and implementation of policies, the environment for private hospitals has been significantly improved

and the revenue CAGR of private hospitals during 2014-18 reached 23.9%, outpacing the 10.4% revenue CAGR of public hospitals during the same period.

Figure 54: Revenue of public and private hospitals in China (Rmb bn)



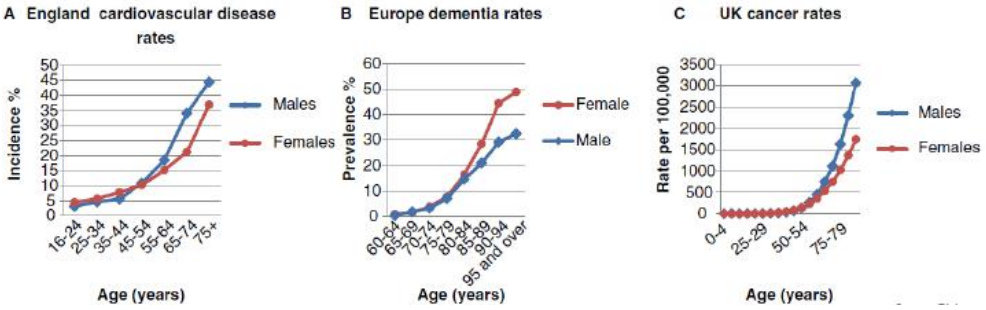
Source: NHFPC, Frost & Sullivan

One of the findings from the CQi survey was that baby boomers are demanding high-quality medical services. We believe that high-end, integrated private hospitals are likely to benefit from an ageing population that is quality conscious. Integrated private hospitals have a clear differentiated market position from public hospitals, with strong medical teams due to a competitive pay and working environment, and more patient-oriented services that support patients' willingness to pay.

Essential drugs and high-quality medical consumables usage increase

Ageing is the number one risk for many serious diseases including cancer, cardiovascular disease and neurodegeneration, all of which are therefore increasing in prevalence. This trend is especially apparent in cancer, as illustrated in a UK-based study, where cancer rates have experienced a steep jump for the population around the age of 60 and beyond.

Figure 55: Disease or total death rates for the most common diseases at old age



Source: Current Biology

Ageing plays an important role for surgeries performed in China, as the need for certain procedures increases with age as well. For surgeries of the older population, in the cardiovascular, interventional, ophthalmologic, and orthopaedic therapeutic areas, patients may require high-end medical consumables to be implanted, such as coronary stents, grafts, ocular implants, or joint-related replacements.

Figure 56: High-end medical consumables by therapeutic area—market share (2018)

Therapeutic area (TA)	Sample devices in TA	Market share (2018)
Vascular intervention	Coronary stents	**37.2%**
Orthopaedic implant	Hip and knee joint replacement devices	**25.0%**
Central Nervous System	Cranial implants	**3.4%**
Ophthalmology	Ocular implants	**7.3%**
Dental	Dental implants	**6.7%**
Haematology	Dialysis equipment	**6.4%**
Non-vascular intervention	Needle biopsies	**3.5%**
Electrophysiology	Pacemakers	**6.5%**
Others		**4.0%**

Source: Blue Book of China's Medical Device Sector, 2018

Large-scale medical equipment makers ride the investment boom

Due to the prioritisation of government objectives to increase investment to support public hospital infrastructure, orders for big-ticket medical equipment such as MRI equipment, CT scanners, ventilators, dialysis machines and other equipment used in ICU wards and hospitals may see an increase. For a lot of large-scale medical equipment in China, foreign brands still command a larger market share than for domestic products, and we could expect to see foreign large-scale medical equipment makers such as **Siemens Healthineers** (CT/MRI imaging systems), **Philips** (patient monitoring systems, CT/MRI imaging systems, and ventilators), and **Fresenius Medical Care** (dialysis machines) to benefit as a result.

Figure 57: ICU equipment China market share in 2019

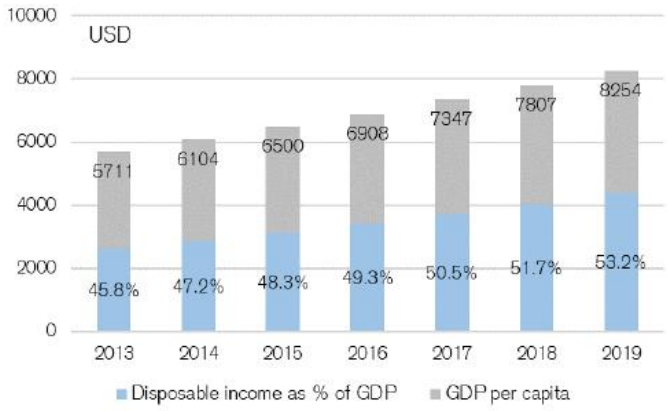
	Brand name	Market share	Domestic or foreign
Monitors	Mindray	72.0%	D
	Philips	16.1%	F
Ventilators	Dräger	38.7%	F
	MAQUET	23.7%	F
	Philips	11.1%	F
Syringe pumps	Smiths Medical	42.8%	F
Blood purifier	Fresenius Medical Care	46.0%	F
	B.Braun	18.5%	F
	Baxter	15.6%	F

Note: CQi is a product of Credit Suisse APAC Equities and not part of Credit Suisse Equity Research.
Source: CQi Survey

Health food demand riding on favourable demographic shift

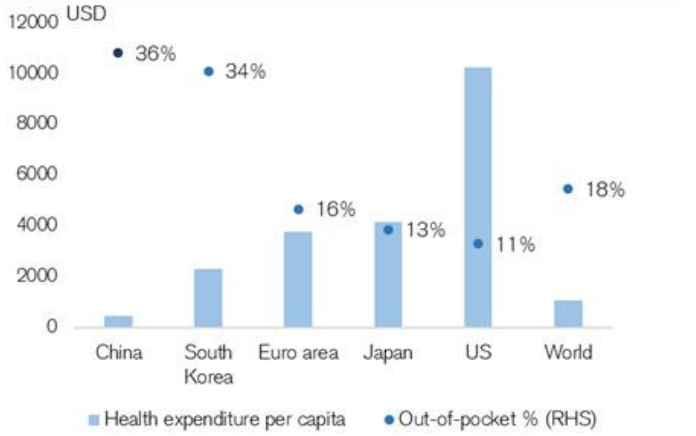
We continue to believe the long-term demographic shift from the ageing population in China will find the health food sector a key beneficiary. Overall, we estimate China's health food sector to continue its favourable growth trajectory at more than 7% annually for the next few years, reaching nearly Rmb340 bn in size (20% of global sales, up from 16% in 2017), with the tailwind of government policy support. Though China's adoption of health food is in its infancy, we believe it will follow the trend of developed countries, specifically resembling its Asian neighbours including Japan and Korea, in the long term. According to the World Bank, China's annual per-capita health expenditure reached US$441, which is about 60% below the world average, and over 90% lower than the US, the country with the highest per-capita spending in the world. Surprisingly, China's out-of-pocket health spending was already more than 30% of the overall spend vs the world average of 18%, from having established a relatively less-developed system and coverage in the country, in our view. Nevertheless, China's health expenditure as a proportion of GDP was still low, at 5.2% in 2017 vs a world average of 9.9%.

Figure 58: China's disposable income saw a 9.1% CAGR, exceeding 50% of per-capita GDP



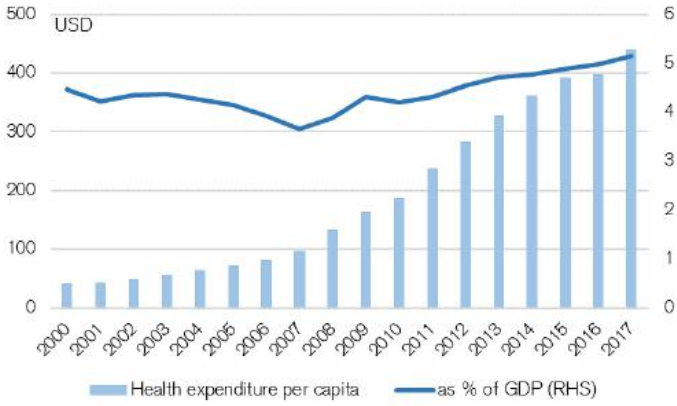
Source: World Bank, Credit Suisse

Figure 59: China's current health expenditure per capita still below global peers and the world average



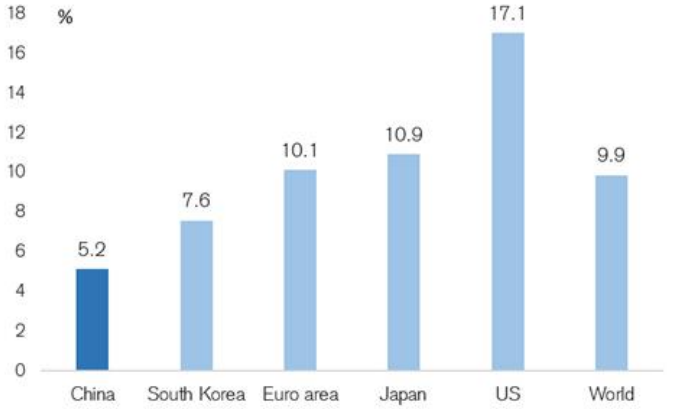
Source: World Bank, Credit Suisse

Figure 60: Increasing China's healthcare expenditure per capita



Source: World Bank, Credit Suisse

Figure 61: China's healthcare expenditure as a % of GDP has much room to grow



Source: World Bank, Credit Suisse

Property for seniors

We see two major implications for the China property sector, from the CQi team's survey on the retirement of the baby-boomer generation. First, the rising ageing population is expected to translate into more demand for senior housing properties. The potential introduction of more favourable policies (i.e. financing support, more land supply at cheaper cost, etc.) and the offering of more exit channels (i.e. REITs structure) would serve as drivers to boost industry development, in our view. Second, we believe the growing life expectancy and preference for living independently—of both the baby boomer generation and the older retiree generation—should alleviate the oversupply concerns in China's physical housing market over the next decade.

Senior housing properties: Promising prospects but more policy support required

The demand for senior housing properties in China is promising as the ageing population is growing. Indeed, the CQi team found that the baby boomers have a higher acceptance of moving into a senior centre/nursing home when they are older, and up to 10% of them prefer living in a senior home or retirement community (vs only 0.2% in the retiree group).

The demand for senior housing properties in China is promising as the ageing population is growing

The promising demand also attracts investment interest from developers. China Vanke initiated the senior housing property business as early as 2009 and built its flagship project in Hangzhou in 2014. While the development of senior housing properties over the past decade was slower than expected due to the unfavourable return profile, we think the potential introduction of more favourable policies by the government (i.e. financing support, more land supply at cheaper cost, direct subsidies) and the offering of exit channels (i.e. REITs structure) should serve as future drivers.

Two models in senior housing property development

There are two major business models for the development of senior housing properties, namely the "develop and sell" model and "develop and operate" model. The former is more of a traditional property development model with the products more tailor-made for the elderly population. With a shorter development cycle and better returns, the "develop and sell" mode is preferred by most developers engaged in senior housing properties. Nevertheless, the services to the elderly population are compromised under this fast asset turnover model.

The "develop and operate" model is of more value to the elderly generation, which involves the provision of comprehensive senior-care services. Nevertheless, the low profitability and tight cash flow pressure make developers reluctant to pursue a long-term investment. As the CQi team has noted, the monthly fee that most baby boomers are willing to pay for senior homes is below Rmb5,000, even in the tier 1 cities. While the fees are higher than for rental housing, with the young generation as the major customers, the labour cost of senior housing services is significantly higher (i.e., more comprehensive services required). This, together with higher capex (i.e., better facilities required), makes it difficult for the developers to make profits in the short term. Meanwhile, the lack of exit channels further deteriorates the investment return profile for developers to choose the "develop and operate" model.

More favourable policies expected

We believe that government would have more incentive to introduce private capital and increase supply of senior housing properties as the shortage is turning increasingly acute. On the financing side, we see the possibility of governments implementing favourable policies with lower rates offered to the operators of senior homes. On the land supply side, the accelerating reform of collectively-owned land parcels in the rural areas offers room for the government to launch more land parcels for the development of senior homes at more attractive costs. Last, but not least, the government has initiated REIT reform in China. While this is primarily focused on the infrastructure industry at the early stage, we see potential for the government to launch REITs for senior homes after the favourable industry policy improves the industry's profitability.

Insurance companies' involvement in retirement community

Alongside the commercial pension value chain, we also see upsides for insurers to participate in the retirement community projects. Insurance funds have the incentives to invest in retirement community projects, which are predominantly long-duration assets that match the liabilities profile of an insurance policy. Besides, the retirement community services can also boost the sales of insurance products and integrate with the healthcare industry chain.

From a liability perspective, the "Insurance + retirement community" model enables insurers to exploit more opportunities in the retirement value chain. Retirement community integration means that insurers can diversify their revenue sources with value-added healthcare and elderly care services. This model also benefits the sales of insurance products. Some insurers promote their products by linking qualification for enrolment in a retirement community with premium paid by the policyholders. From an asset perspective, retirement community projects tend to be long-term orientated, which matches the long duration of insurance liability on the insurers' balance sheet. Besides, the underlying property investments tend to be funding-intensive and insurers have such funding capacity.

So far, insurers are the major players in the retirement community industry. According to CBIRC, insurers had invested in 41 projects with a collective area of 14.5 mn sq m and planned investment funds of Rmb85 bn by end-3Q19. The capacity was designed for at least 56,700

elderly people. Taikang, Taiping, CPIC and China Life have all proactively poured resources in retirement communities. We identify three operation models leveraged by insurers when investing in retirement communities: (1) Asset-heavy model—Insurers build a retirement community using their own funds, and serve as investor, developer and operator. Taikang and CPIC are major players in this model; (2) Asset-light model—Insurers collaborate with third parties by exchanging customer resources with pre-built retirement facilities; (3) Mixed model—Some part of the retirement facilities are built by the insurers, while the remaining are invested through cooperation between insurers and third parties.

Figure 62: Three models of insurers' participation in the retirement community projects

Participation model	Example	Pros	Cons
Asset-heavy	Taikang house	Fully controlled and convenient to implement strategies	Insurers lack property development experience; large amount of funds needed
Asset-light	PICC cooperates with CITIC to set up real estate funds to invest in pension projects	Flexibility; low administration costs	Lack of control
Mixed	China Life's project in Langfang	Shared risks and returns; take advantage of counterparty's strength	Lack of control and high communication costs

Source: Sina news, Credit Suisse

Fewer oversupply concerns

As per CQi's survey, the baby boomer households own 1.27 units of property on average and the retiree households own 1.05 units. The elderly generation that was born in the 1960s (i.e. the baby-boomer group) or before (i.e. retiree group) were already in their late 20s or older when China accelerated the development of the private home market in the mid-1990s. With property prices more affordable in the early stages, we are not surprised to see the elderly generation owning one or more home units.

Nevertheless, the home ownership of the elderly generation is not representative of overall urban households. We estimate the total housing inventory at 21 bn sq m in GFA as at the end of 2019, which excludes properties with shared bathrooms or kitchens. Based on the unit size assumption of 90 sq m, this would translate into an inventory of 234 mn units and cover 78% of housing demand from existing urban households.

Meanwhile, the high home ownership of the elderly generations is less worrisome if we take a closer look at the structure. For the baby boomer and retiree groups, there are still 7.3% and 13.5% of households respectively that currently own no properties. The majority of both these groups only own one property per household (i.e. 64.2% for the baby boomer group and 70.6% for the retiree group).

Figure 63: Home ownership of overall urban households

Demographic		2019
No. of urban population	(mn persons)	848
No. of rural population	(mn persons)	552
Total population	(mn persons)	1,400
No. of persons per household	(persons)	2.84
No. of urban households	(mn households)	299
Property market		**2019**
Unit size	(sq m)	90
Housing inventory*	(mn sq m)	21,045
Housing inventory* in units	(mn units)	234
Housing inventory vs. urban households	(%)	78.3%
No. of properties owned by baby boomer group	(units)	1.27
No. of properties owned by retiree group	(units)	1.05
Home ownership—baby boomer group	(%)	92.7%
Home ownership—retiree group	(%)	86.5%
% of baby boomer households that own one property	(%)	65%
% of retiree households that own one property		70%

Note: The inventory excludes residential properties with shared bathrooms and kitchens. The rows in grey shading were the survey results from the CQi team. CQi is a product of Credit Suisse APAC Equities and not part of Credit Suisse Equity Research.

Source: Company data, CQi survey, Credit Suisse estimates

Growing life expectancy + living independently to alleviate oversupply concern

The rising proportion of the ageing population in China, and the one-child policy implemented from 1980 to 2015, have given rise to oversupply concerns in China's property market over the next decade. The logic behind this is that the generation born after 2010 is likely to own three units when they turn 20 in 2030, including one for living in with their parents and potentially two inherited from their grandparents. The ownership of more than one property by the elderly generation would worsen the demand prospects even more. We are less concerned about this given the growing life expectancy and the preference of the elderly generation for living independently, as the CQi team's survey has shown.

Life expectancy in China rose to 77.3 in 2019, according to the China National Health Commission. As per the CQi team's finding, the baby boomers, with an average age of 54.4, expect to live to 87.6 years on average and the retirees, with an average age of 67.0, expect to live even longer, to the age of 91.2. This rising life expectancy translates into a continued demand for living space from the elderly generation after 2030.

Meanwhile, the preference of the elderly generation for living independently would change the household formation structure, albeit in a more subtle way. The number of people per household stood at 2.71, 3.09 and 3.23 in cities, towns and rural areas, respectively, according to China's 2010 census. The CQi team found that 44% of the retiree group are living in the same households as their children, but the ratio declines to 34% in terms of willingness to live with children, for the baby-boomer generation. With the high preference for living independently, the number of people per household is expected to shrink gradually.

We assume all the elderly generation would live independently from the second generation. The number of people per households would decline to 2.33 if the second generation has one child, or 2.67 if there are two children in the third generation. The smaller household size would translate into more housing demand based on the same population size. Our analysis showed that home demand increases ~3% if we apply a smaller household formation factor of 2.67 for the new urban population (vs the 2.84 we currently use).

Better financial support from the baby-boomer generation

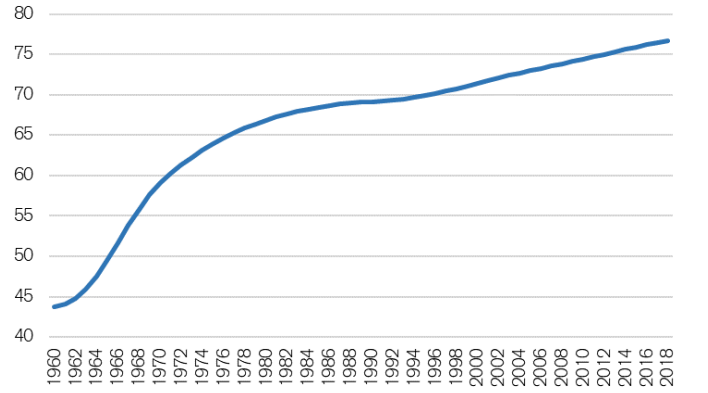
One more finding from the CQi team was that the baby-boomer generation is wealthier than the retiree group, in terms of both property value and financial assets. The second generation of the baby-boomer group is aged between 25 and 35 and accounts for a lion's share of home purchasers over the next decade. The stronger wealth position of the elderly generation is likely to lend more financial support to the home purchases of the second generation and thus offer some relief to the stretched affordability, especially in top-tier cities.

Challenges and opportunities for the social security network

However, China's social security network is not yet ready, as China is facing a significant demographic challenge as a result of the ageing population. At the end of 2019, China's population aged above 65 exceeded 176 mn, or 12.57% of the total population. Life expectancy in China has experienced a substantial increase over the past six decades. In the early 1960s, people were expected to live for only 44 years. This number rose to 77 in 2018. Meanwhile, China's total dependency ratio is expected to observe a steep rise from 2010. As projected by the United Nations, the total dependency ratio for China will likely surpass Brazil, India and the US sequentially in the next 30 years, to 67.3% by 2050, only second to Japan. With greatly improved life expectancy and a gradually declining birth rate, it is crucial for China to build a sustainable pension network.

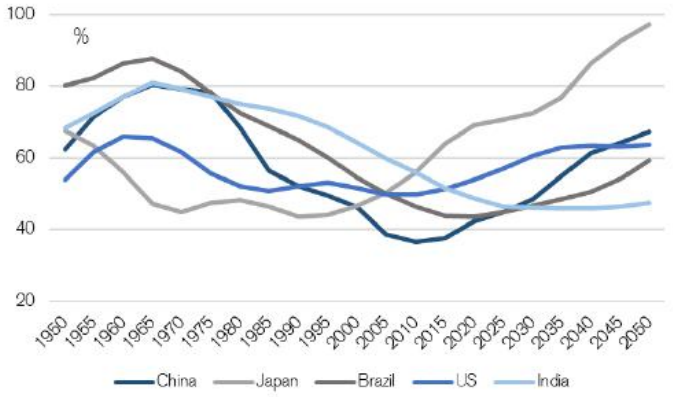
Total dependency ratio for China will likely surpass Brazil, India and the US sequentially

Figure 64: Life expectancy in China



Source: The World Bank

Figure 65: Total dependency ratio—ratio of combined youth population (ages 0-14) and elderly population (ages 65+) per 100 people of working age (ages 15-64).

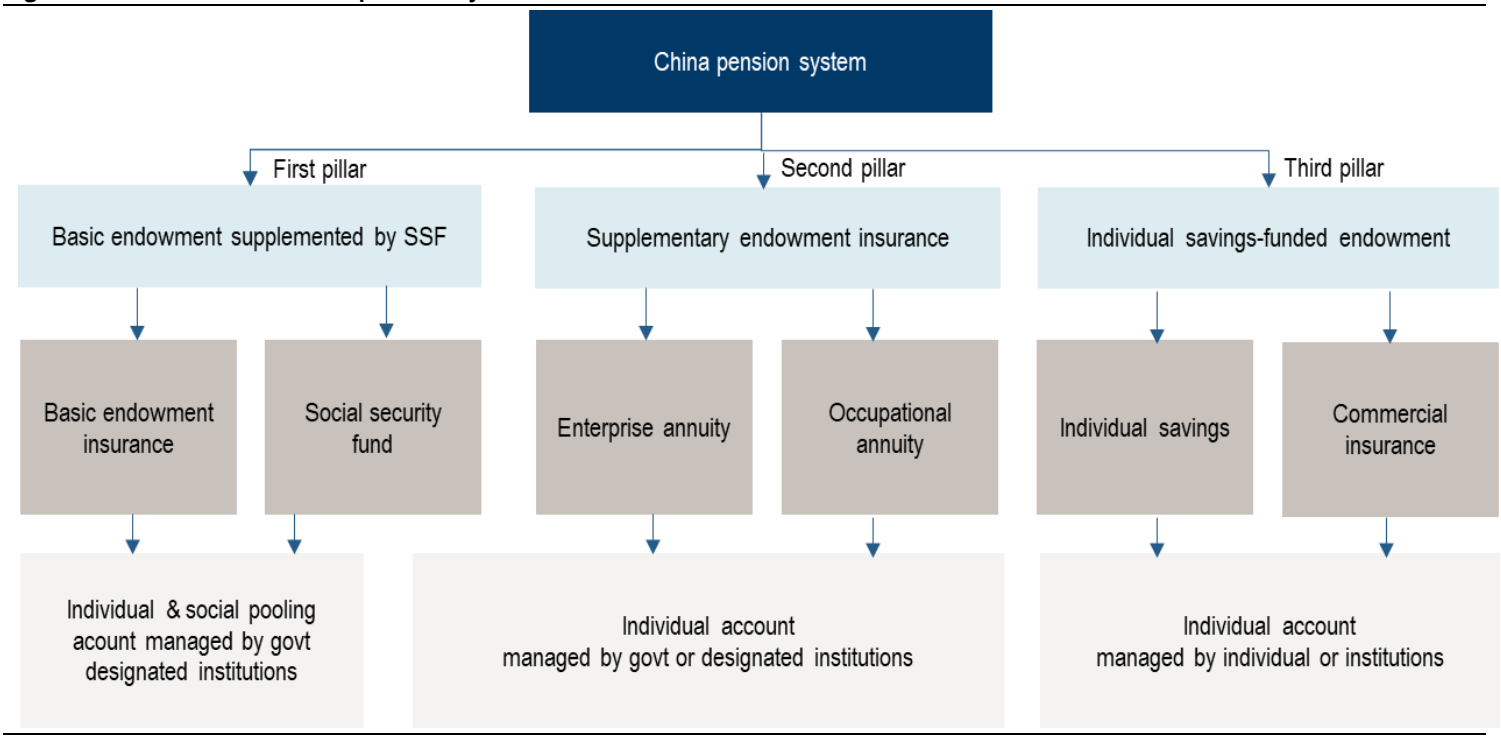


Source: The United Nations

Three-pillar pension structure in place

China has taken steps to develop a pension system consisting of three pillars: (1) a basic endowment insurance system, with Social Security Fund (SSF) as a supplementary; (2) a supplementary endowment insurance system, including enterprise annuity and occupational annuity; (3) an individual, savings-funded endowment insurance system. Basic endowment insurance, playing the most crucial part, is managed by local governments and functions as a cash pool for receipt and payment. The National Social Security Fund was founded in August 2000 as supplement to basic endowment insurance, with funds built up mainly from the central budget, capital transfers from SOEs and investment gains. Enterprise annuity, as the second pillar, is run by corporates for their own staff. The third pillar, individual, savings-funded pension insurance functions as a voluntary supplement contributed by employees.

Figure 66: Overview of China's pension system

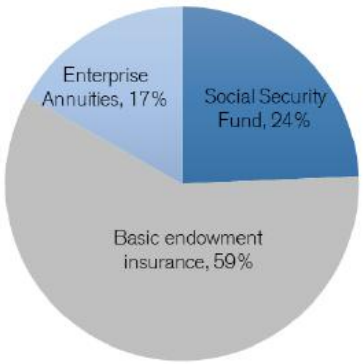


Source: Credit Suisse

- **The basic endowment insurance system** includes: (1) schemes for urban employees; and (2) basic endowment for rural and non-working urban residents. The endowment funding depends on contributions from enterprises and their employees, and government subsidies. The endowment is managed on both collective social and individual accounts. The former is funded by the enterprise, with 20% of the salary, and the latter relies on individuals' funding with 8% of their salary. Besides, in 2000, China established the National Social Security Fund to counter the challenge of an ageing population. The National Social Security Fund is mainly funded by government budgeting, the transfer of SOE stakes, investment income, etc.
- **Supplementary endowment insurance system**, as the second pillar, includes: (1) enterprise annuity; and (2) occupational annuity. Enterprise annuity is a voluntary option for employers, but the government will give participating employers preferential treatment. This annuity can be funded by an enterprise alone, or by both employers and employees. Occupational annuity is mandatory and is designed only for employees in governmental organisations and enterprises.
- **Individual, savings-funded endowment insurance system**, as the third pillar, is a purely voluntary pension system. This further includes individual savings and commercial insurance.

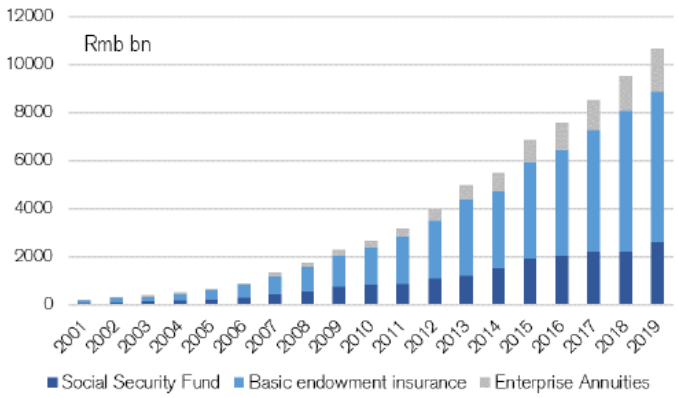
The pension liability is not equally financed by the three pillars. As of end-2019, the size of the first pillar, including basic endowment insurance and SSF as a supplement, stood at about Rmb8 tn, while the second pillar was Rmb1.8 tn, 83% and 17% of the aggregate pension assets of first and second pillar. The third pillar contribution remains minimal, if excluding individual saving.

Figure 67: Pension fund composition in 2018



Note: Excluding occupational annuities and individual commercial insurance (both minimal in scale) due to lack of data. Source: SSF, MOHRSS

Figure 68: Scale of major pension fund categories

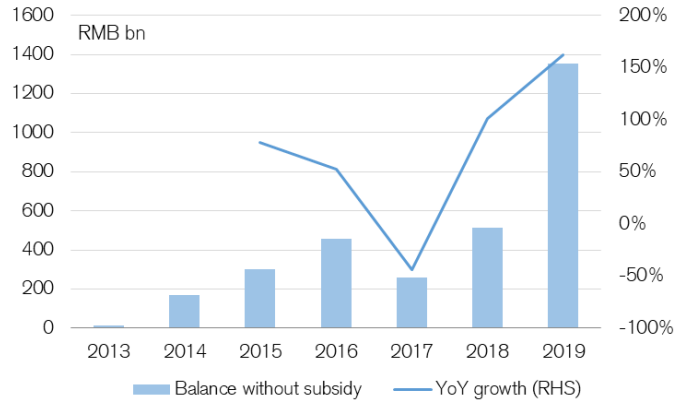


Note: Excluding occupational annuities and individual commercial insurance (both minimal in scale) due to lack of data. Source: SSF, MOHRSS

Funding pressure remains

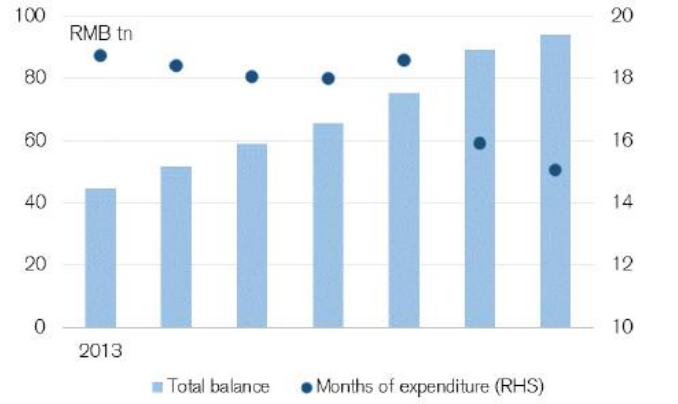
This structural imbalance of the three pillars has led to increasing deficit pressure, with the first shortfall in the basic endowment observed in 2014. Leaving aside government subsidies and other income, the deficit in urban working group pensions reached a remarkable Rmb206 bn in 2018. According to the actuarial report published by Chinese Academy of Social Sciences, the pension funds with government subsidies are estimated to experience the first deficit of Rmb118 bn in 2028, with the shortage rising to Rmb11.3 tn by 2050.

Figure 69: Deficit excluding government subsidies, YoY growth



Source: Ministry of Finance

Figure 70: Total balance and the months of expenditure it meets

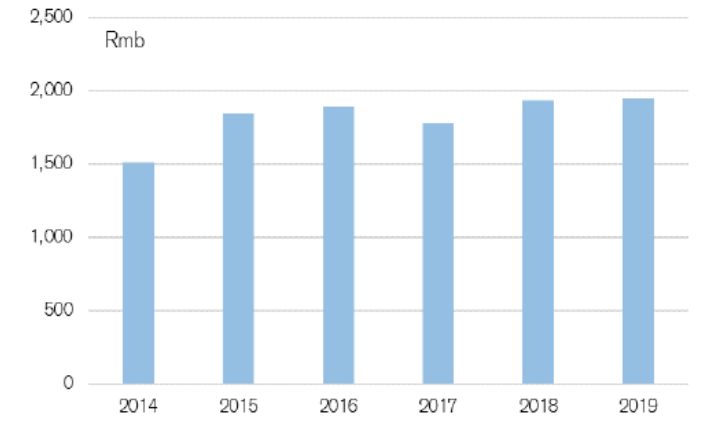


Source: Ministry of Finance

Different challenges for the first and second pillars

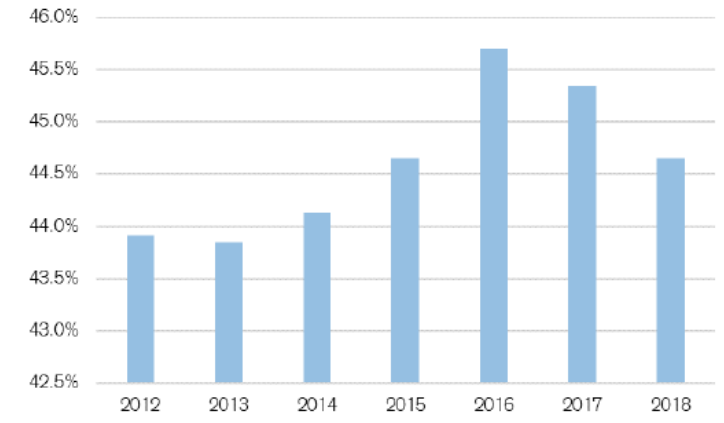
The first pillar faces the challenge of a sliding pension replacement ratio, which is defined as the percentage of a worker's pre-retirement income paid out by a pension programme upon retirement. For the first pillar, while monthly pension withdrawal (per retiree) has been steadily increasing over the past year, the replacement ratio has been on a downward trend, suggesting some problems of pension coverage for the first pillar. The average replacement ratio in OECD countries is 75% (22% for the first pillar and 53% for the second), while China's is only 44%. The International Labour Organisation suggests a minimum replacement ratio of 55%. As of end-2019, people participating in the basic endowment insurance system amounted to 968 mn. As the population ages, we expect a heavier burden on the first pillar.

Figure 71: Average pension withdrawal per retiree per month



Source: Ministry of Human Resources and Social Security

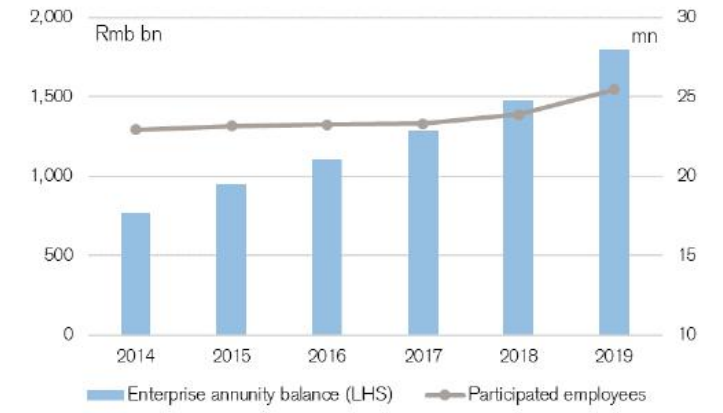
Figure 72: Pension replacement ratio below 55%



Source: Ministry of Human Resources and Social Security, NBS

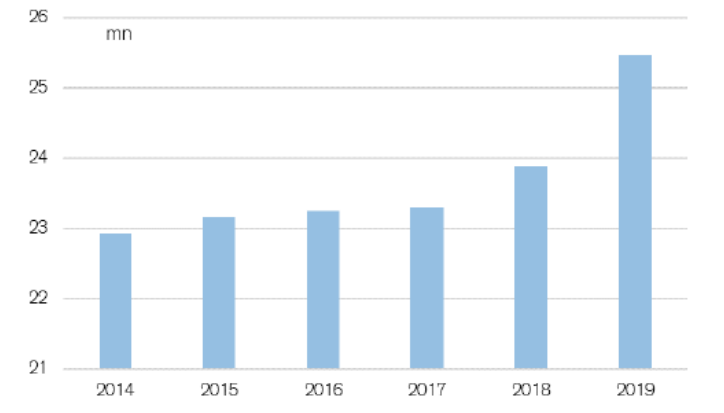
The second pillar of enterprise annuity, despite a fast-growing pension balance, has very limited population coverage. As of end-2019, the size of enterprise annuity stood at Rmb1.8 tn, representing 29% of the first pillar; but only 25.5 mn people were participating in enterprise annuity, representing just 2.6% of people covered by the first pillar. For the enterprise annuity, the growth of participants has been stalled at a low single-digit CAGR over the past few years. Indeed, many SMEs have low incentives to participate given less-attractive tax preferential treatments and low returns on investment. Looking ahead, we anticipate enterprise annuity to continue to record moderate growth, given the penetration in SOEs having already reached its limit and low incentives from SMEs.

Figure 73: Enterprise annuity balance and participating employees



Source: Ministry of Human Resources and Social Security

Figure 74: Average withdrawal amount of enterprise annuity per month



Source: Ministry of Human Resources and Social Security, NBS

Transfer of SOE shares to make up pension shortfall

To make up the pension shortfall, China has opted for SOE stake transfer as a solution. After several rounds of discussion and trials, the official SOE stake transfer plan was unveiled in November 2017. As required by the State Council, large and mid-sized SOEs, and financial institutions should take steps to allocate 10% of their state-owned shares to the National Social Security Fund. The grand plan kicked off nationwide for execution in September 2019 with a schedule attached: (1) Qualified central SOEs to complete by end-2019; (2) SOEs under central government offices administration to implement after required regulatory reform; (3) the rest to complete by end-2020.

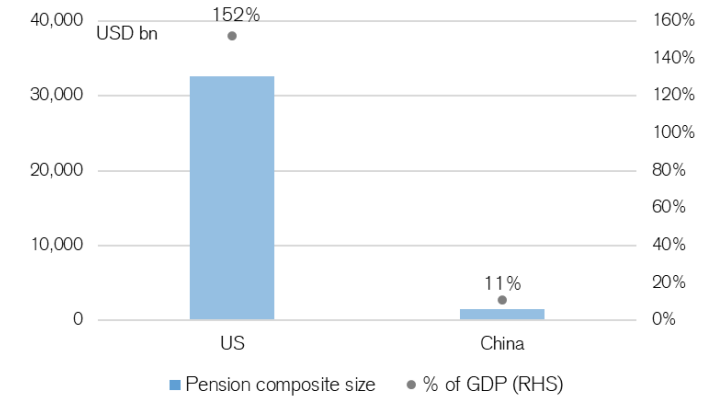
Our rough estimation points to a total of Rmb6 tn in state capital transfers to the National Social Security Fund by 2020, assuming a 10% allocation. Based on a summary report about state-owned capital management disclosed by the State Council, the total of state-owned equities of SOEs and state-owned financial institutions is Rmb66.5 tn. According to the Ministry of Finance, Rmb1.3 tn in state-owned capital has been transferred to the National Social Security Fund in four batches by July 2020. The above-mentioned plan is only a first step, with more state-owned capital transfers to come if necessary, as the State Council has implied. With the hefty fund injections from governments and SOEs, the National Social Security Fund is set to play a more important role as a long-term investor in the Chinese capital market.

The third pillar to play a bigger role in China's pension market

We expect the third pillar of the pension system to play a bigger role in China over the longer term, and the commercial pension business is set to benefit from the structural trend. First, China's pension system is largely underfunded, with pension assets only accounting for 8% of the country's GDP (US: 152%). Second, the pension assets in China are very unevenly distributed among the three pillars. The first pillar contributes the majority of the assets, followed by the second, while the third is under-developed. Despite the high coverage ratio among the population, the first pillar has a limited coverage amount. The second pillar, though having better coverage per case, is only expanding modestly, with limited penetration among employers. In contrast, the first pillar pension system in the US only accounts for 13% of the country's total pension assets, while the second and third pillars play much bigger roles within its established multi-layered pension system.

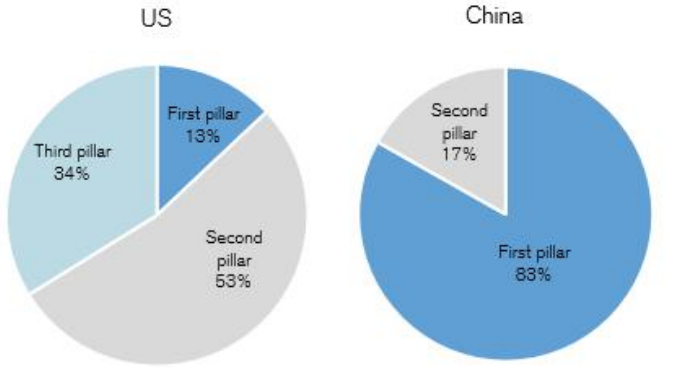
We expect the commercial pension business to benefit from the structural trend of China's pension market

Figure 75: US vs China: Size of pension system in 2019



Note: The amount of the first pillar in China includes both the basic endowment insurance and SSF; the figure for the second pillar refers to enterprise annuity.
Source: ICI, Ministry of Human Resources and Social Security of PRC

Figure 76: The US vs China—Composition of pension fund in 2019



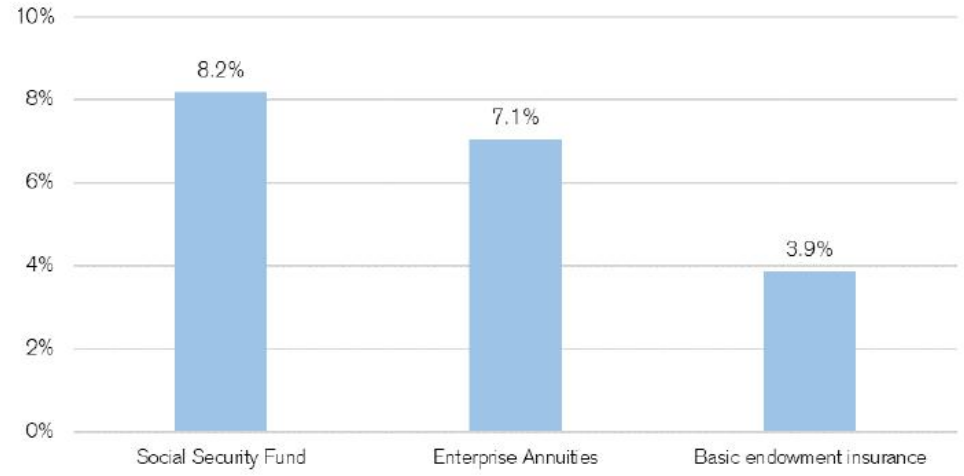
Note: The amount of the first pillar in China includes both the basic endowment insurance and SSF; the figure for the second pillar refers to enterprise annuity.
Source: ICI, Ministry of Human Resources and Social Security of PRC;

We believe that the commercial pension market in China is still largely underdeveloped. In 2019, annuity pension premium income amounted to Rmb54.3 bn, or ~2% of the total life insurance premium. The outstanding liability of commercial pensions totalled Rmb528.5 bn as of 2019, representing merely 3% of the insurance assets of the country. The policy remains highly supportive for the growth of commercial pensions. The State Council executive meeting proposed to proactively develop commercial pension insurance in late 2019. In January 2020, the CBIRC together with 13 ministries issued the guiding outline to promote insurance, and set a goal that pension insurance liability reserves should be more than Rmb6 tn in 2025, implying a 50%+ medium-term CAGR. We expect more measures to be rolled out to support the goal.

Call for better asset allocation and investment returns

Another key issue of pension funds is the asset allocation and investment return from assets under management. There is still room to further enhance the overall efficiency and returns of pension funds, with the Social Security Fund performing better.

Figure 77: Compounding annual return rates of different pension categories



Source: SSF, MOHRSS, Credit Suisse

The National Social Security Fund was initially funded with central government support, aiming to function as strategic reserve funding to supplement pension payments. As of end-2019, the total assets of social security funds surged by 32 times to Rmb2.6 tn over the past 20 years. Apart from the National Social Security Fund, some local social security funds with ample balances are also entitled to entrust a portion for investment managed by the National Council for Social Security Fund. The entrusted local social security funds are managed based on the individual mandates separately, enabling a more diversified investment strategy and risk profile. The average annual return rate of the overall Social Security Fund was more than 8.5%, with the actual return rate (incorporating the inflation factor) reaching 6.2%.

Equity investment within social security fund funds has nearly approached the 40% ceiling of total assets. The asset allocation of the Social Security Fund has been diversified into bonds, stocks, funds and private equity investments. According to the Shanghai Stock Exchange, stocks and equity fund investments contributed Rmb874 bn by 2017, equivalent to 39.3% of total assets, higher than bonds (Rmb796 bn/35.8%) and private equity (Rmb173 bn/7.8%).

Basic endowment insurance takes up the biggest share of the pension fund balance, with the investment return rate remaining low. By end-2019, the national basic endowment balance aggregated Rmb5.8 tn, 55 times the level in 2001, and took up 60% of total pension funds. However, due to regulatory restrictions on investment as well as the conservative investment style adopted, the returns of basic endowment funds have barely kept up with inflation rates in past years.

Before 2015, the authorities stipulated Treasury note as the only investment target for basic endowment funds, leading to an average return of less than 2% from 2001-10, which translates to a negative actual return rate considering the 2.1% inflation rate. After several rounds of trials, China initiated reform in 2015 to expand the qualified investment targets for basic endowment funds, with equity investments including stocks, stock funds and balanced funds capped at 30% of total net worth. The investment return has lifted noticeably since then thanks to a more diversified portfolio; however, only a small portion of basic endowment funds has been allocated to equity investment so far. According to National Council for Social Security Fund, out of Rmb703 bn entrusted total assets from basic endowment insurance, assets held for trading including stocks, funds and futures reached Rmb269 bn or 38.3% of the total,

compared with Rmb376 bn or 53.5% of bonds. The average annual return rate from 2017-18 was only 3.9%.

Enterprise annuities have also experienced rapid growth compared with social security fund and basic endowment insurance, to Rmb1.8 tn in 2019, 69 times the level in 2001. From 2007-19, enterprise annuities achieved an average annual return rate of 7.1%. In general, the actual equity investment portion in enterprise annuities still remains low, accounting for only 6% of total asset net worth in 2018, lagging far behind the 65% of fixed income investments with bonds, loans, bank WMP and trust products included.

Further favourable policies to come

We expect a lifting of the equity investment ceiling for social security fund, basic endowment insurance and enterprise annuities

China aims to enhance its pension fund system by expanding fund sources and improving investment returns, which implies potentially substantial new funds to be allocated to the capital market and an improving investor structure. Meanwhile, the China Securities Regulatory Commission is pushing on a series of further reforms to guide more long-term capital such as social security funds, pension funds and insurance funds into the stock market, with the investment ceiling to be lifted and scope to be expanded, according to speeches delivered by some officials. In July 2020, CBIRC announced it would elevate the equity investment ceiling for qualified insurance companies to 45%, from 40%. We expect a similar easing of policies for social security fund, basic endowment insurance and enterprise annuities.

Figure 78: Actual equity investment as a % of total pension assets vs ceiling in China

	Ceiling on equity investments	Actual equity investments
Social Security Fund	<40%	39%
Basic Endowment Fund	<30%	2%
Enterprise Annuities	<30%	6%
Insurance	<45%	12%

Note: Data for SSF as of 2017; data for the other three categories as of 2018.
Source: State council, SSE, CBIRC

Institutional investor base in formation in the context of capital market reform

We see this as a crucial part of the opening and reform policy, to facilitate the ultimate transformation of China's capital market. China's capital market has huge room to grow as it is under-represented relative to the economic scale of the country. China/Hong Kong accounts for nearly 100% in terms of total market capitalisation as a % of nominal GDP, far below the 210% in the US. The combined number of listed names in China and Hong Kong has reached 6,200, with total market capitalisation approaching US$13 tn, but is still well below the US market's more than US$44 tn.

Institutional investors in China are still at an early growth stage with significant room to grow. The increasing participation of insurance companies and pension funds is expected to further strengthen the institutional investor base and hopefully bring sophisticated investment strategies and styles to this rapidly growing market. Insurance companies have already been an important force for equity investments. Insurance AUM has delivered a 15% CAGR (2014-19) and we expect this solid expansion to continue, underpinned by the momentum of renewal premium and the enhanced investment capability of insurers. Equity and funds currently account for 13% of the total investments held by insurers, while the regulation allows for up to 30% of equity investment (as a % of total assets). This implies further upside for equity investments driven by asset allocation changes. Amid the challenges of lower yields, we expect insurers to strengthen their equity investment to enhance overall comprehensive investment return. CBIRC's Guo Shuqing has announced six measures to support the development of capital markets, including approval of establishing wealth management branches of banks and asset management branches of insurers, allowing banks to step up WMP issuance and supporting insurers to further participate in equity investments.

How to position

Travel

Overall, we believe the retirement wave of baby boomers should help support long-term travel demand as well as online penetration upside. We thus remain constructive on our long-term growth outlook for online travel agencies. Within our coverage, we believe **Trip.com** could be a key beneficiary of this secular trend thanks to: (1) its strong competitive position in the outbound travel market; and (2) strong brand awareness among baby boomers. Yet, in the near term, we are more conservative on the name as the recovery timeline of outbound traffic post COVID-19 remains highly uncertain. Meanwhile, we continue to like **Tongcheng-eLong**, which in our view is better positioned to capture near-term domestic recovery momentum as well as the secular growth potential in lower-tier cities.

ASEAN has been the clearly preferred region of Chinese outbound tourists, commanding a 30% share in 2019. We see the potential for this share of the pie to increase further, especially given the growing popularity of medical tourism and progressively liberalised visa requirements for Chinese tourists. While the US currently tops the list of preferred medical destinations, the resilience of certain ASEAN countries during COVID-19 should help elevate their profile in regards to healthcare, in addition to their clear cost competitiveness. Both airport operators, AOT and MAHB, are good proxies to heightened China tourist arrivals and spending. Meanwhile, hospital operators such as BDMS and IHH stand to benefit the most from an increase in medical tourists from China over the long term.

Airports of Thailand: AOT is likely to be the biggest beneficiary of growth in travel demand from Chinese baby-boomer retirees. Thailand is already a favoured destination for Chinese tourists and AOT has a dominant market share of international air travel in Thailand. The rise in Chinese tourist numbers should also help drive duty-free concession revenue for AOT.

Malaysia Airports: MAHB is expected to be one of the key beneficiaries, should the growth in demand from Chinese tourists for travel to Malaysia accelerate. Both the key airports, KLIA and KLIA2 are now undergoing a commercial reset during this low travel period; thus the rise in inbound Chinese tourists could also provide a much-needed boost to the airports' commercial revenues. Another nearer-tem key catalyst for the stock would be the finalisation of the operating agreement (OA) with the government, expected to conclude by 4Q20. This would then pave the way for a sustainable airport funding model which would provide MAHB with some certainty of returns as it embarks on the airport expansions.

Bangkok Dusit Medical: Among Thai hospitals, BDMS would likely benefit most from an increase in medical tourists from China over the long term. With 48 hospitals, BDMS is the largest hospital chain in Thailand and we estimate that it is already generating more than 50% of total spend by Chinese medical tourists in Thailand. Partnerships with Ping An Good Doctor and Ping An Health insurance further strengthen its position relative to its peers in Thailand.

IHH: IHH is likely a beneficiary, being a premium hospital operator with operations across the region including Singapore and Malaysia. Currently, Chinese inbound patients, make up a relatively insignificant portion of its revenue (<1% in both markets), indicating attractive growth potential over the longer term. According to management, China is its second largest foreign patient source market for Malaysia.

Raffles Medical: Raffles Med is likely to benefit should there be an inflow of affluent Chinese medical tourists to Singapore. Its expansion into China—a medical clinic network across China, and most recently, the opening of Raffles Chongqing—should help build brand awareness among the Chinese, giving it an edge over peers in Singapore.

E-commerce

We believe that diversified product offerings, a wider selection of health care products, and more focus on branded products will continue to make **Alibaba** and **JD** the preferred shopping destination for senior citizens. Taobao and JD are the most commonly used e-commerce apps,

with around 10% of their active users being senior netiziens, compared to a mere 2% for Pinduoduo. It also helps that senior users put less emphasis in terms of value-for-money and white-labelled products that are offered the most by Pinduoduo.

Sportswear

On the back of a recent CQi report "Ready to Retire", we believe that among the brands, **Li Ning** is likely to be the biggest beneficiary as it is the top brand for consumers aged 49-60. As the baby boomers enter into their retirement phase, we believe that sportswear brands can capitalise on the trend of increased exercise time. Being a nationalistic brand built on the name of the Chinese Olympic gymnast, the Li Ning brand resonates most with the generation aged 49-60. To capture this market, brands could potentially launch SKUs targeted at walking and running activities or host dancing festivals for tier-1 consumers to participate in.

Having said that, brands like Li Ning should also be cautious not to compromise their brand image, which has increasingly been targeted at younger consumers post the 1990s. Our channel checks suggest that "China Li-Ning" has increased its proportion of younger consumers in stores over the last 12-18 months as "China Li-Ning" continues to be on New York and Paris fashion shows. Overall, we see Li Ning as the best-positioned domestic brand to be able capture the increased growth from the baby boomers should the company properly execute its strategy; and it is a medium-term margin expansion story with business reform well under way.

Healthcare

Amongst our covered companies, we think that **CR Medical** could be a direct beneficiary of increased public healthcare funding by the central government. CR Medical operates 107 medical institutions (at end of FY19), across 5 Grade III hospitals, 18 Grade II hospitals, and 84 Grade I hospitals & clinics. It has 10,000+ beds in operation and runs one of the largest hospital networks in Asia. We like **New Frontier Health** as the company is a leading private medical service provider in China, with comprehensive service coverage and a nationwide footprint. Across essential drug makers, especially biotech companies that are conducting research and development on innovative drugs targeting oncology, as well as high-end medical consumable manufacturers, there are many companies that will benefit from an ageing population. Looking forward, we expect to see the total market for these drugs and devices increase as there will be a greater addressable population due to more patients requiring treatment with these drugs and/or related surgeries.

Philips: Overall, China is 14% of the Philips group's revenues. We see Philips as well positioned to benefit from these China themes due to **(1)** a leading position among the non-domestic China equipment suppliers in Patient Monitors, where demand will benefit from an ageing population and also additions of beds in hospitals to prepare for any second wave of COVID-19; and **(2)** exposure to Imaging Equipment, which also stands to benefit from rising penetration. Overall, Philips has been seeing healthy growth trends, with double-digit growth in China in 2019, and already in 2Q20, after a 1Q slowdown, the orders had returned to flat YOY. The next catalyst for Philips is the 3Q20 results on 16 October and then the November CMD where the company will likely issue new mid-term margin targets.

Siemens Healthineers: Overall, China is 13% of Healthineers group 2019 revenues, and these grew at 9% in 2019. We see Healthineers as having a market leading position in Imaging Scanners (90% of group EBIT), where we see a runway for growth driven by rising penetration in this market (see our report of 18 March for more details). Healthineers has the benefit of scale, and the Varian acquisition which is aimed to close in H121. As a result of the deal, SHL will have a more complete product portfolio versus the other equipment players. Despite the relatively full acquisition price, and the resulting overhang from the required equity raise, we see this deal as strategically making sense and further underpinning Healthineers superior organic growth sustainability versus peers. The next catalyst for Healthineers is clarity around the timing of the first tranche of equity for the Varian deal (we think September/October), and also the results on 2 November 2020.

Fresenius Medical Care: China is a major growth opportunity for Fresenius Medical Care in dialysis, in products as well as in services. Fresenius Medical Care focuses on improving the quality of care in life-sustaining dialysis treatment to patients, who are suffering from ESRD. The company provided products and services to more than 4,000 dialysis centres and renal hospitals in China by 2018. Fresenius Medical Care is focusing on investing in tier 2 and tier 3 cities—large and medium-sized cities with a population between 150,000 and 15 million, like Kunming or Quanzhou, as the company already has a good position in larger cities.

Senior property

On the development and operation of senior homes, **China Vanke** initiated the business as early as 2009 and had developed 170 projects (incl. 50 projects with beds) across 15 cities as at end-2017, with five major product lines introduced. Despite limited profit contribution to Vanke at this point, the scale of its senior home projects ranks top among developers. As the policy is set to turn more supportive with more exit channels, we see more growth potential for China Vanke on its first-mover advantage. China Vanke, with its sales ranking among the top-3 in China, will be one of the major beneficiaries of any potential market consolidation.

Insurance

The need for life and health insurance increases with age, which provides a structural tailwind for life and health insurance providers globally. As people become wealthier and are able to meet their basic needs, they tend to upgrade their lifestyle and have an increasing appetite for safety such as financial security and wealth protection. We see huge potential for the development of commercial insurance (including pension) in the future, when the protection gap widens. Demographic factors are generally the main cause for pension protection gaps. **Ping An**, as one of the largest insurers in China, will continue to benefit from the structurally growing opportunities of underpenetrated insurance in China. **AIA**, as a pan-Asia life insurer, is well positioned to address the region's protection gap with its quality insurance solutions. According to Swiss Re, many Asian markets are facing a huge protection gap. With its presence in 18 life insurance markets in the region, AIA is set to capture the structurally growing opportunity of life, health and pension insurance in the region. **Prudential** currently has a small market share in the China life insurance market and is considerably underweight compared to AIA. Earnings contribution to Pru Asia was ~5% from China, but expanding at double-digit levels. New business APE sales mix is much higher at ~15%, with attractive margins and high growth; the importance of this market to Prudential will be evident over the next 3-5 years, or sooner if management is able to take advantage of inorganic growth opportunities. For example, management would like to buy out the 50% stake from its local JV partner, CITIC, and continue to expand its distribution reach across the country. The importance of the China market is highlighted by Prudential's top-2 market share in Hong Kong and its desire to win on both sides of the China/HK border so that is less reliant on legislation on border controls.

Figure 79: Company sheet

Ticker	Company name	Sector	Rating	Price	TP	Upside	2020 P/E (x)	2021 P/E (x)	2020 EV/EBITDA (x)	2020 EPS gth (%)	2020 P/B (x)	2020 ROE (%)	2020 DY (%)
TCOM	Trip.com Group	Retailing	N	28.1	27.0	-4%	na	23.9	na	-145%	1.2	-3%	0.0%
0780.HK	Tongcheng-Elong	Retailing	O	14.5	17.0	17%	25.8	13.6	18.3	-31%	2.1	8%	0.0%
AOT.BK	AOT	Transportation	O	54.0	62.0	15%	248.1	450.4	81.8	-77%	5.4	2%	0.2%
MAHB.KL	Malaysia Airports	Transportation	O	5.3	7.3	39%	38.8	29.6	7.0	-57%	1.0	3%	1.3%
BDMS.BK	Bangkok Dusit	Health Care	O	20.1	24.5	22%	52.0	33.7	23.7	-39%	3.8	7%	1.0%
IHHH.KL	IHH	Health Care	O	5.6	6.3	12%	106.4	43.9	20.8	-50%	2.2	2%	0.2%
BABA.N	Alibaba	Retailing	O	265.8	309.0	16%	34.7	29.7	29.9	22%	6.4	18%	0.0%
JD.OQ	JD	Retailing	O	75.0	80.0	7%	47.1	37.2	48.1	52%	5.1	11%	0.0%
2331.HK	Li Ning	Consumer	N	32.2	29.0	-10%	44.8	33.0	26.5	4%	8.5	19%	0.7%
1515.HK	CR Medical	Health Care	O	5.6	4.5	-19%	13.6	12.2	6.0	22%	1.0	8%	0.0%
NFH	New Frontier Health	Health Care	O	8.2	10.6	30%	na	188.0	29.9	73%	1.0	-3%	0.0%
PHG.AS	Philips Kon	Health Care	N	42.5	41.0	-4%	23.1	20.4	11.3	-5%	3.0	13%	2.1%
SHLG.DE	Siemens Healthineers	Health Care	O	39.2	44.0	12%	24.3	21.3	13.4	0%	3.8	16%	2.0%
FMEG.DE	Fresenius Medical Care	Health Care	N	72.9	81.0	11%	14.6	13.7	8.4	13%	1.7	12%	1.6%
2202.HK	Vanke	Real Estate	N	25.7	27.4	7%	5.7	5.0	1.4	15%	1.2	20%	5.2%
2318.HK	Ping An (H)	Insurance	O	84.0	103.0	23%	9.8	8.2	9.2	-9%	1.7	17%	2.9%
2628.HK	China Life (H)	Insurance	O	18.8	30.0	59%	10.0	8.9	20.5	-18%	1.1	11%	3.8%
1299.HK	AIA Group	Insurance	O	75.1	82.0	9%	27.3	16.7	17.6	-36%	2.0	7%	1.8%
PRU.L	Prudential	Insurance	O	1,215.0	1,350.0	11%	8.5	7.7	-	9%	1.8	21%	2.4%

Note: Priced as of 21 August 2020. O = Outperform, N = Neutral.

Source: Refinitiv, Credit Suisse estimates

CREDIT SUISSE

Trip.com Group

Not out of the woods yet

TCOM

Target price (12M, US$)
27.00
Neutral[V]

Consumer Internet

- **Dominant position.** As a leading online travel agency in China, Trip.com commands a dominant position in both online transportation ticketing and the hotel booking market. Although competition has been heating up in the domestic market, especially in lower-tier cities, in recent years, Trip.com has been able to retain a stronghold in the domestic high-end market as well as the outbound travel market. In particular, we see its dominant position in the outbound market difficult to be challenged thanks to years of investment in international air ticketing, global hotel inventory and content. Thus, we see Trip.com in a good positon to capture the secular growth in Chinese outbound over the longer term.
- **In the near term, COVID-19 headwinds on fundamentals are likely to persist.** Although domestic travel demand has been steadily improving after the economy reopened in March, demand recovery for Trip.com has been lagging that of peers due to its higher revenue contribution from domestic high-tier cities (more stringent virus control which depresses travel demand) and high-end business demand (easily replaced by remote-working solutions).
- **On the international front, cross-border travel has been largely suspended** since the COVID-19 outbreak and remains at a minimal level as the pandemic is yet to be contained globally. Chinese outbound and overseas markets contribute to 35-40% of group revenue and the recovery timeline remains highly uncertain.
- **Limited downside, limited catalysts.** We see limited downside to share price at the current level. Yet, given the prolonged headwinds from international travel and recovery behind peers in the domestic market, we see limited catalysts to drive a share price rally. Our target price is based on end-2021 DCF assuming a 2% terminal growth rate and 11% WACC. Maintain Neutral.

Price (21 Aug 20, US$)	28.12
Upside/downside (%)	-4.0
Mkt cap (US$ mn)	15,621
Enterprise value (Rmb mn)	147,933
Number of shares (mn)	555.51
Free float (%)	98.3
52-wk price range (US$)	38.94-21.63
ADTO-6M (US$ mn)	54.9

[V] = Stock Considered Volatile (see Disclosure Appendix)

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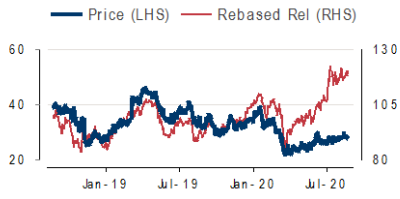
Financial and valuation metrics

Year	12/19A	12/20E	12/21E
Revenue (Rmb mn)	35,666.0	19,720.3	28,873.9
EBITDA (Rmb mn)	5,458.9	(923.0)	5,219.7
EBIT (Rmb mn)	5,040.0	(1,360.7)	4,749.8
Net profit (Rmb mn)	6,527.0	(3,053.3)	5,595.7
EPS (CS adj.) (Rmb)	10.17	(4.57)	8.14
Chg. from prev. EPS (%)	n.a.	0.0	0.0
Consensus EPS (Rmb)	n.a.	(4.18)	8.7
EPS growth (%)	15.5	n.m.	n.m.
P/E (x)	19.1	n.m.	23.9
Dividend yield (%)	0.0	0.0	0.0
EV/EBITDA (x)	25.0	n.m.	27.7
P/B (x)	1.07	1.19	1.18
ROE (%)	6.9	(3.0)	5.6
Net debt/equity (%)	26.5	45.8	34.1

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



The price relative chart measures performance against the MSCI CHINA F IDX which closed at 10,025.38 on 21/08/20. On 21/08/20 the spot exchange rate was US$1/US$1

Performance	1M	3M	12M
Absolute (%)	3.1	18.2	(15.6)
Relative (%)	0.6	(6.0)	(45.1)

Trip.com Group (TCOM.OQ / TCOM US)

Price (21 Aug 2020): **US$28.12** Target Price: **US$27.00**

Analyst: **Ivy Ji**

Rating: **Neutral [V]**

Income Statement (Rmb mn)	12/19A	12/20E	12/21E
Sales revenue	**35,666**	**19,720**	**28,874**
Cost of goods sold	7,372	5,817	6,641
EBITDA	**5,459**	**(923)**	**5,220**
EBIT	**5,040**	**(1,361)**	**4,750**
Net interest expense/(inc.)	(417)	208	170
Recurring PBT	**9,087**	**(5,969)**	**5,580**
Profit after tax	**7,345**	**(5,855)**	**4,143**
Reported net profit	**7,011**	**(7,105)**	**3,993**
Net profit (Credit Suisse)	**6,527**	**(3,053)**	**5,596**
Balance Sheet (Rmb mn)	**12/19A**	**12/20E**	**12/21E**
Cash & cash equivalents	21,747	24,358	34,291
Current receivables	7,661	6,573	7,218
Inventories	0	0	0
Other current assets	38,547	35,457	35,457
Current assets	**67,955**	**66,388**	**76,967**
Property, plant & equip.	6,135	6,587	7,141
Investments	0	0	0
Intangibles	58,308	58,308	58,308
Other non-current assets	67,771	67,632	67,632
Total assets	**200,169**	**198,915**	**210,048**
Current liabilities	**69,182**	**69,943**	**75,529**
Total liabilities	**93,324**	**97,840**	**103,426**
Total debt	50,053	70,674	70,674
Shareholders' equity	**103,442**	**97,599**	**103,194**
Minority interests	2,261	2,311	2,261
Total liabilities & equity	**200,169**	**198,915**	**210,048**
Cash Flow (Rmb mn)	**12/19A**	**12/20E**	**12/21E**
EBIT	**5,040**	**(1,361)**	**4,750**
Net interest	0	0	0
Tax paid	0	0	0
Working capital	4,452	(9,913)	4,942
Other cash & non-cash items	4,091	(3,995)	1,266
Operating cash flow	**13,583**	**(15,268)**	**10,957**
Capex	(774)	(890)	(1,024)
Free cash flow to the firm	**12,809**	**(16,158)**	**9,934**
Investing cash flow	**1,015**	**(2,766)**	**(1,024)**
Equity raised	0	0	0
Dividends paid	0	0	0
Financing cash flow	**(9,496)**	**20,645**	**0**
Total cash flow	**5,102**	**2,611**	**9,934**
Adjustments	0	0	0
Net change in cash	**5,102**	**2,611**	**9,934**
Per share	**12/19A**	**12/20E**	**12/21E**
Shares (wtd avg.) (mn)	642	668	688
EPS (Credit Suisse) (Rmb)	**10.17**	**(4.57)**	**8.14**
DPS (Rmb)	0.00	0.00	0.00
Operating CFPS (Rmb)	21.16	(22.87)	15.93
Earnings	**12/19A**	**12/20E**	**12/21E**
Growth (%)			
Sales revenue	15.2	(44.7)	46.4
EBIT	93.5	(127.0)	449.1
EPS	15.5	(145.0)	277.9
Margins (%)			
EBITDA	15.3	(4.7)	18.1
EBIT	14.1	(6.9)	16.4
Valuation (x)	**12/19A**	**12/20E**	**12/21E**
P/E	19.1	(42.5)	23.9
P/B	1.07	1.19	1.18
Dividend yield (%)	0.0	0.0	0.0
EV/sales	3.8	7.8	5.0
EV/EBITDA	25.0	(167.3)	27.7
EV/EBIT	27.1	(113.5)	30.4
ROE analysis (%)	**12/19A**	**12/20E**	**12/21E**
ROE	6.9	(3.0)	5.6
ROIC	3.1	(0.9)	2.4
Credit ratios	**12/19A**	**12/20E**	**12/21E**
Net debt/equity (%)	26.5	45.8	34.1
Net debt/EBITDA (x)	5.19	n.m.	6.97

Source: Company data, Refinitiv, Credit Suisse estimates

Company Background

Trip is a leading travel service provider of accommodation, reservation, transportation ticketing, packaged tours, and corporate travel management in China.

Blue/Grey Sky Scenario

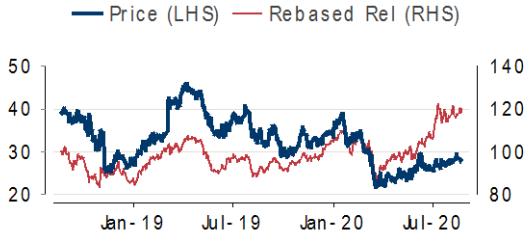
Our Blue Sky Scenario (US$) **32.00**

Our blue sky scenario valuation of US$32.0 assumes faster-than-expected margin recovery and stronger-than-expected growth from domestic and international expansion.

Our Grey Sky Scenario (US$) **20.00**

Our grey sky scenario valuation of US$20.0 assumes slower-than-expected margin recovery and worse-than-expected competition.

Share price performance



The price relative chart measures performance against the MSCI CHINA F IDX which closed at 10,025.38 on 21-Aug-2020

On 21-Aug-2020 the spot exchange rate was US$1/US$1

CREDIT SUISSE

Tongcheng-Elong

Well positioned for lower tier city growth

0780.HK

Target price (12M, HK$)
17.00
Outperform[V]

Travel & Leisure

- **Domestic travel demand rising.** The recovery of domestic travel demand accelerated into July after a pause in June post the outbreak in Beijing. Domestic air traffic climbed back to >70% of last year up from ~60% in June. We believe this reflects the solid recovery trend for mid- to long-haul leisure demand, especially after the lift of the inter-province group tour restrictions in mid-July.
- **We see catalysts ahead.** Looking ahead, we are positive on the domestic recovery outlook driven by: (1) further recovery of mid- to long-haul leisure demand on gradual restoration of consumer confidence and easing travel restrictions; (2) continued increase of online penetration in lower tier cities; and (3) diversion from outbound traffic as international travel will likely be out of reach for a long period of time given the current situation of new COVID cases globally. Yet in the very near term, the pace of recovery could slow into August due to a shorter summer holiday this year (from delayed school opening post COVID) and restrictions on inter-province travel for students.
- **Well positioned to capture recovery and growth.** In 1Q20, 56% of its new paying users were from lower-tier cities, up from 44% in 1Q19. Thanks to its higher exposure to domestic demand, especially in lower tier cities, we believe Tongcheng Elong is in a good position to capture the recovery and growth ahead. This is due to: (1) lower level of online penetration in lower tier cities and thus higher organic growth for online travel demand; and (2) less stringent traffic control in lower tier cities on virus concerns.
- **Valuation undemanding.** We continue to like Tongcheng-eLong, which in our view is better positioned to capture domestic recovery and growth ahead thanks to its exposure to lower tier cities. Valuation is also undemanding at 13.6x 2021E. Our target price is based on DCF assuming a 2% terminal growth rate and 14% WACC. Maintain OUTPERFORM.

Price (21 Aug 20, HK$)	14.50
Upside/downside (%)	17.2
Mkt cap (HK$/US$ mn)	31,259 / 4,034
Enterprise value (Rmb mn)	22,315
Number of shares (mn)	2,156
Free float (%)	42.0
52-wk price range (HK$)	14.98-8.94
ADTO-6M (US$ mn)	11.6

[V] = Stock Considered Volatile (see Disclosure Appendix)

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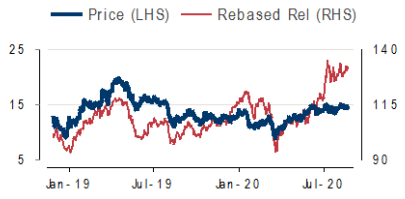
Financial and valuation metrics

Year	12/19A	12/20E	12/21E
Revenue (Rmb mn)	7,392.9	6,236.7	8,841.7
EBITDA (Rmb mn)	1,306.7	1,192.4	2,493.5
EBIT (Rmb mn)	684.5	535.6	1,798.6
Net profit (Rmb mn)	1,545.9	1,083.7	2,096.2
EPS (CS adj.) (Rmb)	0.73	0.5	0.95
Chg. from prev. EPS (%)	n.a.	0.0	0.0
Consensus EPS (Rmb)	n.a.	0.49	0.92
EPS growth (%)	33.0	(31.3)	89.6
P/E (x)	17.7	25.8	13.6
Dividend yield (%)	0.0	0.0	0.0
EV/EBITDA (x)	17.7	18.3	7.9
P/B (x)	2.15	2.06	1.85
ROE (%)	12.7	8.2	14.5
Net debt/equity (%)	(37.5)	(44.5)	(53.6)

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



The price relative chart measures performance against the MSCI CHINA F IDX which closed at 10,025.38 on 21/08/20. On 21/08/20 the spot exchange rate was HK$7.75/US$1

Performance	1M	3M	12M
Absolute (%)	3.7	9.0	16.6
Relative (%)	1.3	(15.1)	(12.9)

CREDIT SUISSE

Tongcheng-Elong (0780.HK / 780 HK)

Analyst: **Ivy Ji**

Price (21 Aug 2020): **HK$14.50**

Target Price: **HK$17.00**

Rating: **Outperform [V]**

Income Statement (Rmb mn)	12/19A	12/20E	12/21E
Sales revenue	**7,393**	**6,237**	**8,842**
Cost of goods sold	2,318	1,944	2,772
EBITDA	**1,307**	**1,192**	**2,494**
EBIT	**684**	**536**	**1,799**
Net interest expense/(inc.)	(35)	(37)	(37)
Recurring PBT	**882**	**591**	**1,897**
Profit after tax	**687**	**485**	**1,517**
Reported net profit	**688**	**486**	**1,519**
Net profit (Credit Suisse)	**1,546**	**1,084**	**2,096**
Balance Sheet (Rmb mn)	**12/19A**	**12/20E**	**12/21E**
Cash & cash equivalents	4,955	6,211	8,412
Current receivables	900	945	1,040
Inventories	0	0	0
Other current assets	3,381	3,408	3,466
Current assets	**9,236**	**10,564**	**12,918**
Property, plant & equip.	1,099	1,263	1,425
Investments	101	101	101
Intangibles	7,504	7,047	6,590
Other non-current assets	297	297	297
Total assets	**18,239**	**19,273**	**21,331**
Current liabilities	**4,753**	**4,982**	**5,223**
Total liabilities	**5,482**	**5,711**	**5,952**
Total debt	172	172	172
Shareholders' equity	**12,764**	**13,569**	**15,386**
Minority interests	(8)	(8)	(8)
Total liabilities & equity	**18,239**	**19,273**	**21,331**
Cash Flow (Rmb mn)	**12/19A**	**12/20E**	**12/21E**
EBIT	**684**	**536**	**1,799**
Net interest	0	0	0
Tax paid	0	0	0
Working capital	149	157	89
Other cash & non-cash items	1,166	926	714
Operating cash flow	**2,000**	**1,619**	**2,601**
Capex	(330)	(363)	(399)
Free cash flow to the firm	**1,670**	**1,256**	**2,202**
Investing cash flow	**(330)**	**(363)**	**(399)**
Equity raised	0	0	0
Dividends paid	0	0	0
Financing cash flow	**0**	**0**	**0**
Total cash flow	**1,670**	**1,256**	**2,202**
Adjustments	0	0	0
Net change in cash	**1,670**	**1,256**	**2,202**
Per share	**12/19A**	**12/20E**	**12/21E**
Shares (wtd avg.) (mn)	2,118	2,161	2,204
EPS (Credit Suisse) (Rmb)	**0.73**	**0.50**	**0.95**
DPS (Rmb)	0.00	0.00	0.00
Operating CFPS (Rmb)	0.94	0.75	1.18
Earnings	**12/19A**	**12/20E**	**12/21E**
Growth (%)			
Sales revenue	21.4	(15.6)	41.8
EBIT	459.4	(21.8)	235.8
EPS	33.0	(31.3)	89.6
Margins (%)			
EBITDA	17.7	19.1	28.2
EBIT	9.3	8.6	20.3
Valuation (x)	**12/19A**	**12/20E**	**12/21E**
P/E	17.7	25.8	13.6
P/B	2.15	2.06	1.85
Dividend yield (%)	0.0	0.0	0.0
EV/sales	3.1	3.5	2.2
EV/EBITDA	17.7	18.3	7.9
EV/EBIT	33.8	40.8	10.9
ROE analysis (%)	**12/19A**	**12/20E**	**12/21E**
ROE	12.7	8.2	14.5
ROIC	6.5	5.7	19.6
Credit ratios	**12/19A**	**12/20E**	**12/21E**
Net debt/equity (%)	(37.5)	(44.5)	(53.6)
Net debt/EBITDA (x)	(3.66)	(5.06)	(3.30)

Source: Company data, Refinitiv, Credit Suisse estimates

Company Background

Tongcheng-Elong is the third-largest player in China's online travel market with a 9.8% GMV market share in 2017.

Blue/Grey Sky Scenario

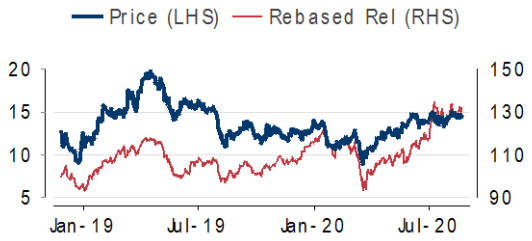
Our Blue Sky Scenario (HK$) **17.00**

Our blue sky scenario of HK$17.00 assumes: (1) faster penetration into the WeChat user base and stronger MAU growth; (2) higher conversion and paying ratio; (3) stronger cost discipline leading to higher margins; and (4) a more favourable competitive landscape.

Our Grey Sky Scenario (HK$) **10.00**

Our grey sky scenario of HK$10.00 assumes: (1) weaker MAU growth trend and lower penetration into the WeChat user base; (2) weaker cost synergies post-merger; (3) more aggressive competition and pricing strategies from peers; and (4) a deterioration in its relationship with Tencent.

Share price performance



The price relative chart measures performance against the MSCI CHINA F IDX which closed at 10,025.38 on 21-Aug-2020
On 21-Aug-2020 the spot exchange rate was HK$7.75/US$1

CREDIT SUISSE

Airports of Thailand

Best proxy for riding the Chinese tourist wave

AOT.BK

Target price (12M, Bt)
62.00
Outperform

Airport Services

- **Best proxy for the tourism sector.** AOT operates Thailand's two international airports (Suvarnabhumi and Don Mueang) and other four regional airports within the country. It has a dominant market share (80%+) of international air traffic volume. Thus, AOT has been one of the best proxies for the tourism sector, driven mainly by Chinese tourists (28% market share of international arrivals to Thailand). Pre-COVID-19, Chinese passengers accounted for 25% of AOT's total international passenger volume.
- **Baby boomer retirees, duty-free shopping to benefit AOT.** As Thailand ranks high among preferred destinations for Chinese tourists (it has the highest share of Chinese outbound tourists visiting ASEAN), we expect AOT to benefit significantly from likely increase in travel demand from China's baby boomer retirees. Increased passenger volume in the long term should also help drive sales at duty-free shops within the airport, leading to higher concession revenues paid to AOT.
- **Vaccine development to drive market attention to long-term value.** The business outlook is tough in the next 3-4 quarters given Thailand still has not opened its doors to international tourists for fear of a second wave of COVID-19. But progress in vaccine development should increasingly drive market attention to its long-term value.
- **We expect strong profit growth recovery during FY22-23.** We expect strong profit growth recovery during FY22-23, with return of international passengers and upside from new duty-free concession. Vaccine failure represents the greatest risk for AOT.

Price (21 Aug 20, Bt)	54.00
Upside/downside (%)	14.8
Mkt cap (Bt/US$ mn)	771,428 / 24,459
Enterprise value (Bt mn)	725,268
Number of shares (mn)	14,286
Free float (%)	30.0
52-wk price range (Bt)	81.00-47.00
ADTO-6M (US$ mn)	70.5

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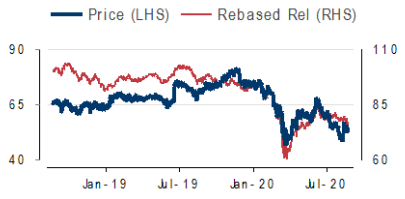
Financial and valuation metrics

Year	9/19A	9/20E	9/21E	9/22E
Revenue (Bt mn)	62,927.4	28,374.7	22,386.8	58,330.0
EBITDA (Bt mn)	37,250.9	8,884.7	7,535.0	29,907.5
EBIT (Bt mn)	31,399.4	3,258.8	1,887.7	23,271.4
Net profit (Bt mn)	25,766.9	3,109.3	1,712.7	18,729.8
EPS (CS adj.) (Bt)	1.8	0.22	0.12	1.31
Chg. from prev. EPS (%)	n.a.	0.0	0.0	0.0
Consensus EPS (Bt)	n.a.	0.33	0.46	1.54
EPS growth (%)	2.3	(87.9)	(44.9)	993.6
P/E (x)	29.9	248.1	450.4	41.2
Dividend yield (%)	1.9	0.2	0.1	1.5
EV/EBITDA (x)	19.0	81.8	98.7	25.0
P/B (x)	5.01	5.43	5.44	4.83
ROE (%)	17.3	2.1	1.2	12.4
Net debt/equity (%)	(40.2)	(31.0)	(19.3)	(15.6)

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



The price relative chart measures performance against the THAILAND SET IDX which closed at 1,299.26 on 21/08/20. On 21/08/20 the spot exchange rate was Bt31.54/US$1

Performance	1M	3M	12M
Absolute (%)	(4.4)	(5.7)	(23.1)
Relative (%)	(0.2)	(5.3)	(2.7)

CREDIT SUISSE

Airports of Thailand (AOT.BK / AOT TB)

Analyst: **Thaniya Kevalee**

Price (21 Aug 2020): **Bt54.00**

Target Price: **Bt62.00**

Rating: **Outperform**

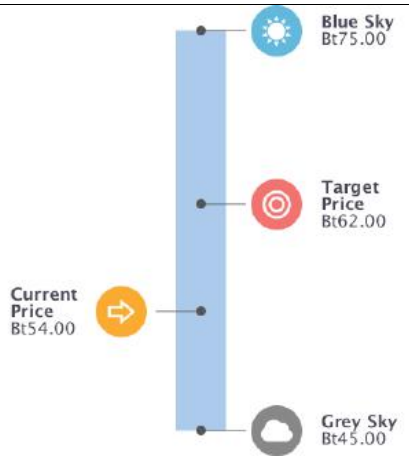
Income Statement (Bt mn)	09/19A	09/20E	09/21E	09/22E
Sales revenue	**62,927**	**28,375**	**22,387**	**58,330**
Cost of goods sold	0	0	0	0
EBITDA	**37,251**	**8,885**	**7,535**	**29,907**
EBIT	**31,399**	**3,259**	**1,888**	**23,271**
Net interest expense/(inc.)	(354)	(395)	(4)	178
Recurring PBT	**31,484**	**3,892**	**2,220**	**23,422**
Profit after tax	**25,096**	**3,106**	**1,782**	**18,799**
Reported net profit	**25,026**	**3,037**	**1,713**	**18,730**
Net profit (Credit Suisse)	**25,767**	**3,109**	**1,713**	**18,730**
Balance Sheet (Bt mn)	**09/19A**	**09/20E**	**09/21E**	**09/22E**
Cash & cash equivalents	75,909	59,442	42,840	43,693
Current receivables	3,965	1,788	1,411	3,675
Inventories	335	151	119	310
Other current assets	578	578	578	578
Current assets	**80,787**	**61,959**	**44,948**	**48,257**
Property, plant & equip.	85,382	90,342	104,952	130,680
Investments	1,162	1,162	1,162	1,162
Intangibles	434	448	463	478
Other non-current assets	30,616	30,616	30,616	30,616
Total assets	**198,382**	**184,527**	**182,141**	**211,193**
Current liabilities	**26,182**	**22,563**	**20,054**	**34,019**
Total liabilities	**43,843**	**41,797**	**39,450**	**50,731**
Total debt	13,752	15,190	15,352	18,722
Shareholders' equity	**153,899**	**142,022**	**141,913**	**159,615**
Minority interests	640	709	778	847
Total liabilities & equity	**198,382**	**184,527**	**182,141**	**211,193**
Cash Flow (Bt mn)	**09/19A**	**09/20E**	**09/21E**	**09/22E**
EBIT	**31,399**	**3,259**	**1,888**	**23,271**
Net interest	354	395	4	(178)
Tax paid	(6,389)	(786)	(438)	(4,623)
Working capital	3,526	(1,123)	(2,099)	5,455
Other cash & non-cash items	6,285	5,955	5,976	6,965
Operating cash flow	**35,175**	**7,699**	**5,330**	**30,890**
Capex	(9,961)	(10,500)	(20,172)	(32,279)
Free cash flow to the firm	**25,215**	**(2,801)**	**(14,842)**	**(1,389)**
Investing cash flow	**(10,057)**	**(10,600)**	**(20,272)**	**(32,379)**
Equity raised	0	0	0	0
Dividends paid	(14,998)	(14,914)	(1,822)	(1,028)
Financing cash flow	**(19,237)**	**(13,476)**	**(1,660)**	**2,342**
Total cash flow	**5,881**	**(16,377)**	**(16,602)**	**853**
Adjustments	(2,778)	(91)	0	0
Net change in cash	**3,103**	**(16,468)**	**(16,602)**	**853**
Per share	**09/19A**	**09/20E**	**09/21E**	**09/22E**
Shares (wtd avg.) (mn)	14,286	14,286	14,286	14,286
EPS (Credit Suisse) (Bt)	**1.80**	**0.22**	**0.12**	**1.31**
DPS (Bt)	1.04	0.13	0.07	0.79
Operating CFPS (Bt)	2.46	0.54	0.37	2.16
Earnings	**09/19A**	**09/20E**	**09/21E**	**09/22E**
Growth (%)				
Sales revenue	3.9	(54.9)	(21.1)	160.6
EBIT	2.0	(89.6)	(42.1)	1132.8
EPS	2.3	(87.9)	(44.9)	993.6
Margins (%)				
EBITDA	59.2	31.3	33.7	51.3
EBIT	49.9	11.5	8.4	39.9
Valuation (x)	**09/19A**	**09/20E**	**09/21E**	**09/22E**
P/E	29.9	248.1	450.4	41.2
P/B	5.01	5.43	5.44	4.83
Dividend yield (%)	1.9	0.2	0.1	1.5
EV/sales	11.3	25.6	33.2	12.8
EV/EBITDA	19.0	81.8	98.7	25.0
EV/EBIT	22.6	223.1	394.1	32.1
ROE analysis (%)	**09/19A**	**09/20E**	**09/21E**	**09/22E**
ROE	17.3	2.1	1.2	12.4
ROIC	27.5	2.7	1.4	14.9
Credit ratios	**09/19A**	**09/20E**	**09/21E**	**09/22E**
Net debt/equity (%)	(40.2)	(31.0)	(19.3)	(15.6)
Net debt/EBITDA (x)	(1.67)	(4.98)	(3.65)	(0.83)

Source: Company data, Refinitiv, Credit Suisse estimates

Company Background

Airports of Thailand Public Company Limited is a Thailand-based company engaged in the operation of airports across Thailand. Its airports include Thailand's main airport of Suvarnabhumi, the former main airport of Don Mueang, Chiang Mai, Hat Yai, Phuket.

Blue/Grey Sky Scenario



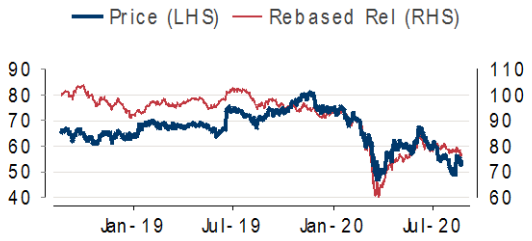
Our Blue Sky Scenario (Bt) **75.00**

Our blue sky scenario of Bt75 applies a 2% higher long-term EBITDA margin to reflect potential improvement in cost management and revenue mix and 3% higher volume assumption. We also incorporate 0.5% lower WACC assumption.

Our Grey Sky Scenario (Bt) **45.00**

Our grey sky scenario of Bt45 applies a 3% lower long-term EBITDA margin to reflect potentially worse than expected cost management and revenue mix and 3% lower volume assumption. We also incorporate 0.5% higher WACC assumption.

Share price performance



The price relative chart measures performance against the THAILAND SET IDX which closed at 1,299.26 on 21-Aug-2020

On 21-Aug-2020 the spot exchange rate was Bt31.54/US$1

CREDIT SUISSE

Malaysia Airports Holdings Bhd

Gateway to Malaysia

MAHB.KL

Target price (12M, RM)
7.30

Outperform

Airport Services

- **Proxy to tourism.** Malaysia Airports (MAHB) is one of the best tourism plays in the country, given its earnings' leverage to heightened tourist arrivals and spending. Out of the 42 airports in Malaysia, 39 are being operated by MAHB, making it the first point of contact for all foreign tourists into the country (except those travelling by land or sea). MAHB will also be embarking on an airport expansion programme (currently put on hold due to COVID-19) to upgrade and expand key international airports. Over the medium term, we expect sufficient capacity to cater to rising tourist arrivals into the country as well as the ability to capture higher commercial spending.
- **China the key swing factor.** Despite Malaysia's increasing dependence on China tourists (12% of overall tourist arrivals in 2019 vs just 4% back in 2002), the country's share of China outbound tourists is only 3%. This looks low compared to neighbouring ASEAN countries like Vietnam (11%) and Thailand (6%). The underpenetration of Chinese travel into Malaysia suggests that there is ample upside for the country's share to expand, particularly if China outbound tourists increase as their baby boomers make overseas travel one of their top priorities.
- **What can Malaysia offer?** In our view, Malaysia can offer a compelling value proposition for Chinese tourists. Firstly, the government has progressively liberalised entry requirements for them. Secondly, Malaysia's My Second Home (MM2H) programme, which is designed to grant a social visit pass with multiple entries over a ten-year period, has been heavily skewed towards applicants from China. Also, the Malaysian ringgit is often perceived as a "cheap" currency thus making luxury hotels, shopping and food in Malaysia a lot more affordable. The country also has plenty of natural beauty and some of the richest biodiversity in the world. Cultural heritage is not only rich in diversity, but shares a link with China both due to the large ethnic Chinese population in Malaysia and long historical ties.
- **Cheapest airport stock in the region.** At 7x EV/EBITDA, MAHB is one of the cheapest airport stocks in the region. The P/E multiple looks high but the group's earnings are grossly understated by the accounting treatment for its Istanbul Sabiha Gokcen airport's acquisition/ownership. Excluding that, the Malaysia business trades at below 20x P/E.

Price (21 Aug 20, RM)	5.26
Upside/downside (%)	38.8
Mkt cap (RM/US$ mn)	8,727 / 2,088
Enterprise value (RM mn)	12,541
Number of shares (mn)	1,659
Free float (%)	79.1
52-wk price range (RM)	8.79-4.07
ADTO-6M (US$ mn)	4.7

Research Analysts

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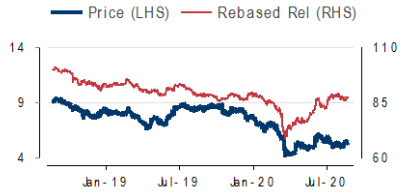
Financial and valuation metrics

Year	12/19A	12/20E	12/21E	12/22E
Revenue (RM mn)	5,213.1	4,035.7	4,560.8	5,199.0
EBITDA (RM mn)	2,292.0	1,813.8	1,991.8	2,263.6
EBIT (RM mn)	1,350.4	1,010.1	1,090.2	1,245.7
Net profit (RM mn)	528.5	225.2	295.3	413.8
EPS (CS adj.) (RM)	0.32	0.14	0.18	0.25
Chg. from prev. EPS (%)	n.a.	0.0	0.0	0.0
Consensus EPS (RM)	n.a.	(0.15)	0.15	0.31
EPS growth (%)	18.3	(57.4)	31.1	40.1
P/E (x)	16.5	38.8	29.6	21.1
Dividend yield (%)	3.0	1.3	1.7	2.4
EV/EBITDA (x)	5.3	7.0	6.6	5.8
P/B (x)	1.05	1.03	1.02	0.99
ROE (%)	6.4	2.7	3.5	4.8
Net debt/equity (%)	37.3	42.4	46.1	44.9

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



The price relative chart measures performance against the FTSE BURSA MALAYSIA KLCI IDX which closed at 1,577.12 on 21/08/20. On 21/08/20 the spot exchange rate was RM4.18/US$1

Performance	1M	3M	12M
Absolute (%)	(1.1)	6.5	(38.5)
Relative (%)	(0.5)	(3.3)	(36.9)

CREDIT SUISSE

Malaysia Airports Holdings Bhd (MAHB.KL / MAHB MK)

Analyst: **Joanna Cheah**

Price (21 Aug 2020): **RM5.26**

Target Price: **RM7.30**

Rating: **Outperform**

Income Statement (RM mn)	12/19A	12/20E	12/21E	12/22E
Sales revenue	**5,213**	**4,036**	**4,561**	**5,199**
Cost of goods sold	436	333	408	491
EBITDA	**2,292**	**1,814**	**1,992**	**2,264**
EBIT	**1,350**	**1,010**	**1,090**	**1,246**
Net interest expense/(inc.)	726	708	692	695
Recurring PBT	**659**	**336**	**433**	**586**
Profit after tax	**537**	**228**	**298**	**417**
Reported net profit	**537**	**225**	**295**	**414**
Net profit (Credit Suisse)	**529**	**225**	**295**	**414**
Balance Sheet (RM mn)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Cash & cash equivalents	1,453	933	508	67
Current receivables	974	1,068	1,207	1,375
Inventories	170	101	124	149
Other current assets	1,804	1,804	1,804	1,804
Current assets	**4,401**	**3,907**	**3,642**	**3,396**
Property, plant & equip.	455	455	455	455
Investments	566	600	635	670
Intangibles	16,063	16,181	16,897	17,228
Other non-current assets	698	698	698	698
Total assets	**22,183**	**21,841**	**22,328**	**22,446**
Current liabilities	**3,289**	**2,832**	**3,169**	**3,071**
Total liabilities	**12,857**	**12,401**	**12,737**	**12,646**
Total debt	4,933	4,933	4,933	4,465
Shareholders' equity	**8,328**	**8,440**	**8,588**	**8,795**
Minority interests	0	3	6	8
Total liabilities & equity	**22,183**	**21,841**	**22,328**	**22,446**
Cash Flow (RM mn)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
EBIT	**1,350**	**1,010**	**1,090**	**1,246**
Net interest	692	0	0	0
Tax paid	(92)	(108)	(135)	(169)
Working capital	36	(482)	175	182
Other cash & non-cash items	143	804	902	1,018
Operating cash flow	**2,129**	**1,223**	**2,032**	**2,276**
Capex	(490)	(370)	(1,055)	(785)
Free cash flow to the firm	**1,639**	**853**	**977**	**1,491**
Investing cash flow	**(829)**	**(370)**	**(1,055)**	**(785)**
Equity raised	0	0	0	0
Dividends paid	(232)	(113)	(148)	(207)
Financing cash flow	**(1,281)**	**(1,373)**	**(1,403)**	**(1,932)**
Total cash flow	**18**	**(520)**	**(426)**	**(441)**
Adjustments	(16)	0	0	0
Net change in cash	**3**	**(520)**	**(426)**	**(441)**
Per share	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Shares (wtd avg.) (mn)	1,659	1,659	1,659	1,659
EPS (Credit Suisse) (RM)	**0.32**	**0.14**	**0.18**	**0.25**
DPS (RM)	0.16	0.07	0.09	0.12
Operating CFPS (RM)	1.28	0.74	1.22	1.37
Earnings	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Growth (%)				
Sales revenue	7.4	(22.6)	13.0	14.0
EBIT	(9.7)	(25.2)	7.9	14.3
EPS	18.3	(57.4)	31.1	40.1
Margins (%)				
EBITDA	44.0	44.9	43.7	43.5
EBIT	25.9	25.0	23.9	24.0
Valuation (x)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
P/E	16.5	38.8	29.6	21.1
P/B	1.05	1.03	1.02	0.99
Dividend yield (%)	3.0	1.3	1.7	2.4
EV/sales	2.3	3.2	2.9	2.5
EV/EBITDA	5.3	7.0	6.6	5.8
EV/EBIT	9.0	12.6	12.1	10.5
ROE analysis (%)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
ROE	6.4	2.7	3.5	4.8
ROIC	8.6	5.2	5.5	6.3
Credit ratios	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Net debt/equity (%)	37.3	42.4	46.1	44.9
Net debt/EBITDA (x)	1.52	2.20	2.22	1.94

Source: Company data, Refinitiv, Credit Suisse estimates

Company Background

MAHB operates domestic and international airports in Malaysia and Turkey, and has stakes in airports in India.

Blue/Grey Sky Scenario

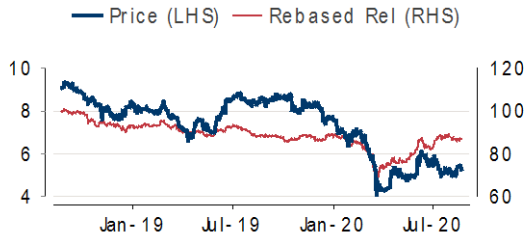
Our Blue Sky Scenario (RM) **9.00**

A stake sale in ISG valuing it at 15x EBITDA would value the Turkey operations at RM5.5 bn. This would imply a blue sky value of RM9.00 for MAHB.

Our Grey Sky Scenario (RM) **4.10**

Our grey sky value of RM4.10 assumes MAHB trades at its AFC low valuation of 0.8x P/B.

Share price performance



The price relative chart measures performance against the FTSE BURSA MALAYSIA KLCI IDX which closed at 1,577.12 on 21-Aug-2020
On 21-Aug-2020 the spot exchange rate was RM4.18/US$1

CREDIT SUISSE

Bangkok Dusit Medical Services

Right efforts to lure Chinese medical tourists

BDMS.BK

Target price (12M, Bt)
24.50

Outperform

Healthcare Facilities

- **Thailand's largest hospital chain with highest share of Chinese medical tourism.** BDMS is Thailand's largest hospital chain, with 48 hospitals in its portfolio in different price and geographical segments. We also believe it has the highest share of spending by Chinese medical tourists in Thailand. Chinese patients account for only 5% of its total international patient revenue and 1.6% of total patient revenue.
- **Ping An tie-up to help attract more medical tourists.** Among hospital players, BDMS is thus likely to be the biggest beneficiary of a potential rise in medical tourism spending by China's baby boomer retirees, who have a higher tendency to seek medical services overseas compared with current retirees. BDMS's partnership with Ping An Good Doctor and Ping An Health Insurance is the key step in expanding its footprint to draw more demand from Chinese medical tourists, in our view.
- **BDMS appears to be past the bottom and is on the path to recovery.** Successful sales of exclusive health insurance policies in partnership with Viriyah Insurance should support Thai patient revenue going forward, while we expect medical tourist revenue to stage a strong rebound when Thailand reopens to international tourists. We see room for EBITDA margin upside in the longer term.
- **Attractive valuation, healthy balance sheet.** BDMS is attractive relative to regional peers' average multiple and has a healthy balance sheet that should help sustain its operations through challenging times. Key risks are vaccine failure and rising competition.

Price (21 Aug 20, Bt)	20.10
Upside/downside (%)	21.9
Mkt cap (Bt/US$ mn)	319,429 / 10,128
Enterprise value (Bt mn)	339,600
Number of shares (mn)	15,892
Free float (%)	52.0
52-wk price range (Bt)	26.25-17.80
ADTO-6M (US$ mn)	22.5

Research Analysts

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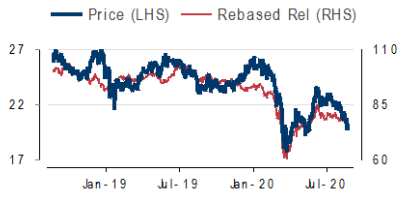
Financial and valuation metrics

Year	12/19A	12/20E	12/21E	12/22E
Revenue (Bt mn)	82,722.6	68,615.4	81,309.0	90,810.8
EBITDA (Bt mn)	18,578.7	14,377.4	18,469.1	21,225.2
EBIT (Bt mn)	12,826.6	8,063.3	11,842.4	14,266.0
Net profit (Bt mn)	10,042.8	6,141.0	9,474.7	11,265.3
EPS (CS adj.) (Bt)	0.64	0.39	0.6	0.71
Chg. from prev. EPS (%)	n.a.	0.0	0.0	0.0
Consensus EPS (Bt)	n.a.	0.42	0.59	0.69
EPS growth (%)	(3.5)	(39.4)	54.3	18.9
P/E (x)	31.5	52.0	33.7	28.4
Dividend yield (%)	2.7	1.0	1.5	1.8
EV/EBITDA (x)	18.2	23.7	18.2	15.6
P/B (x)	3.81	3.82	3.58	3.35
ROE (%)	13.0	7.3	11.0	12.2
Net debt/equity (%)	21.6	24.0	18.4	12.4

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



The price relative chart measures performance against the THAILAND SET IDX which closed at 1,299.26 on 21/08/20. On 21/08/20 the spot exchange rate was Bt31.54/US$1

Performance	1M	3M	12M
Absolute (%)	(8.2)	(3.4)	(13.0)
Relative (%)	(4.0)	(3.0)	7.5

CREDIT SUISSE

Bangkok Dusit Medical Services (BDMS.BK / BDMS TB)

Analyst: **Thaniya Kevalee**

Price (21 Aug 2020): **Bt20.10**

Target Price: **Bt24.50**

Rating: **Outperform**

Income Statement (Bt mn)	12/19A	12/20E	12/21E	12/22E
Sales revenue	**82,723**	**68,615**	**81,309**	**90,811**
Cost of goods sold	49,482	41,844	48,474	53,633
EBITDA	**18,579**	**14,377**	**18,469**	**21,225**
EBIT	**12,827**	**8,063**	**11,842**	**14,266**
Net interest expense/(inc.)	819	672	668	606
Recurring PBT	**19,883**	**7,846**	**12,062**	**14,549**
Profit after tax	**16,009**	**6,442**	**9,939**	**11,817**
Reported net profit	**15,517**	**6,141**	**9,475**	**11,265**
Net profit (Credit Suisse)	**10,043**	**6,141**	**9,475**	**11,265**
Balance Sheet (Bt mn)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Cash & cash equivalents	5,596	5,593	8,928	10,142
Current receivables	8,850	8,850	10,487	11,713
Inventories	1,843	1,843	2,135	2,363
Other current assets	36	36	42	47
Current assets	**16,325**	**16,323**	**21,593**	**24,265**
Property, plant & equip.	78,440	80,230	81,716	82,880
Investments	18,015	18,024	18,404	18,717
Intangibles	17,539	17,539	17,539	17,539
Other non-current assets	3,342	3,496	3,650	3,804
Total assets	**133,662**	**135,612**	**142,903**	**147,205**
Current liabilities	**19,263**	**14,553**	**17,205**	**17,701**
Total liabilities	**46,480**	**48,560**	**50,112**	**48,108**
Total debt	24,430	26,510	26,010	22,410
Shareholders' equity	**83,813**	**83,652**	**89,222**	**95,303**
Minority interests	3,368	3,400	3,568	3,794
Total liabilities & equity	**133,662**	**135,612**	**142,902**	**147,205**
Cash Flow (Bt mn)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
EBIT	**12,827**	**8,063**	**11,842**	**14,266**
Net interest	(819)	(672)	(668)	(606)
Tax paid	(2,498)	(1,404)	(2,123)	(2,732)
Working capital	(871)	0	116	139
Other cash & non-cash items	5,761	6,324	6,638	6,972
Operating cash flow	**14,400**	**12,312**	**15,805**	**18,038**
Capex	(7,437)	(7,704)	(7,713)	(7,723)
Free cash flow to the firm	**6,963**	**4,608**	**8,092**	**10,315**
Investing cash flow	**5,121**	**(7,822)**	**(7,771)**	**(7,714)**
Equity raised	0	0	0	0
Dividends paid	(7,194)	(6,572)	(4,200)	(5,511)
Financing cash flow	**(19,775)**	**(4,492)**	**(4,700)**	**(9,111)**
Total cash flow	**(254)**	**(3)**	**3,334**	**1,214**
Adjustments	0	0	0	0
Net change in cash	**(254)**	**(3)**	**3,334**	**1,214**
Per share	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Shares (wtd avg.) (mn)	15,761	15,892	15,892	15,892
EPS (Credit Suisse) (Bt)	**0.64**	**0.39**	**0.60**	**0.71**
DPS (Bt)	0.55	0.19	0.30	0.35
Operating CFPS (Bt)	0.91	0.77	0.99	1.14
Earnings	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Growth (%)				
Sales revenue	6.9	(17.1)	18.5	11.7
EBIT	5.4	(37.1)	46.9	20.5
EPS	(3.5)	(39.4)	54.3	18.9
Margins (%)				
EBITDA	22.5	21.0	22.7	23.4
EBIT	15.5	11.8	14.6	15.7
Valuation (x)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
P/E	31.5	52.0	33.7	28.4
P/B	3.81	3.82	3.58	3.35
Dividend yield (%)	2.7	1.0	1.5	1.8
EV/sales	4.1	5.0	4.1	3.7
EV/EBITDA	18.2	23.7	18.2	15.6
EV/EBIT	26.4	42.2	28.4	23.3
ROE analysis (%)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
ROE	13.0	7.3	11.0	12.2
ROIC	9.7	6.2	9.0	10.5
Credit ratios	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Net debt/equity (%)	21.6	24.0	18.4	12.4
Net debt/EBITDA (x)	1.01	1.45	0.92	0.58

Source: Company data, Refinitiv, Credit Suisse estimates

Company Background

Bangkok Dusit Medical Services Public Company Limited is a Thailand-based company engaged in the hospital and healthcare businesses. It is the biggest hospital network in Thailand with 44 hospitals in the portfolio, targeting nearly all sub segments.

Blue/Grey Sky Scenario

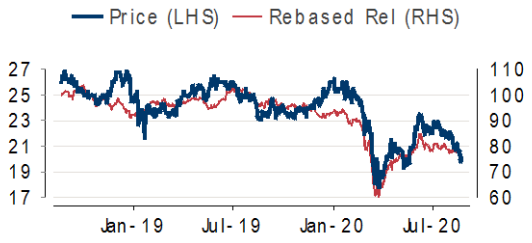
Our Blue Sky Scenario (Bt) **29.00**

Our blue sky scenario of Bt29 applies a 1% higher long-term EBITDA margin to reflect potential improvement in the mix of treatments and cost control. We also incorporate 0.5% lower WACC assumption and terminal growth rate of 4.3% versus 3.8% in the base case.

Our Grey Sky Scenario (Bt) **17.00**

Our grey sky scenario of Bt17 applies a 1.5% lower long-term EBITDA margin to reflect potential deterioration in the mix of treatments and cost control. We also incorporate 0.5% higher WACC assumption and terminal growth rate of 3.3% versus 3.8% in the base case.

Share price performance



The price relative chart measures performance against the THAILAND SET IDX which closed at 1,299.26 on 21-Aug-2020

On 21-Aug-2020 the spot exchange rate was Bt31.54/US$1

CREDIT SUISSE

IHH Healthcare Berhad

Attractive prospect for China's outbound medical tourists

IHHH.KL

Target price (12M, RM)
6.25

Outperform

Healthcare Facilities

- **Exposure to Malaysia and Singapore offers attractive upside.** As Asia's leading healthcare provider with core operations in Singapore and Malaysia, we view IHH to be a key beneficiary of Chinese medical tourists into the said countries. Both home markets accounted for 44% combined of group FY19 revenue, with foreign patients contributing 18% of the revenue for the said markets.
- **Brand reputation a key differentiating factor.** IHH operates some of the most prestigious hospital brands under its portfolio (e.g. Mount Elizabeth, Gleneagles and Pantai), known for their service quality. At the same time, the impending opening of Gleneagles Shanghai and Chengdu in the coming years should help improve brand recognition amongst the local Chinese population as well.
- **Ample room for growth, as share of Chinese patients still relatively insignificant.** Foreign Chinese patients currently make up <1% of IHH's revenue in both Singapore and Malaysia. We see this as an attractive growth opportunity considering Singapore's prominence as a high-end medical care destination and Malaysia's growing popularity among medical tourists. According to management, China is IHH's second largest source of foreign patients for Malaysian hospitals and we expect further growth going forward.
- **Attractive valuation relative to history.** IHH currently trades at 15.5x forward EV/EBITDA, which is at a 26% discount to its five-year average. While COVID-19 has set back its turnaround progress in India, we are seeing signs of ramp-up from April-lows. In the longer term, we continue to view IHH as the best proxy to Asia's growing healthcare market, given its scale and international presence.

Price (21 Aug 20, RM)	5.58
Upside/downside (%)	12.0
Mkt cap (RM/US$ mn)	48,977 / 11,720
Enterprise value (RM mn)	53,211
Number of shares (mn)	8,777
Free float (%)	17.2
52-wk price range (RM)	5.93-4.68
ADTO-6M (US$ mn)	5.1

Research Analysts

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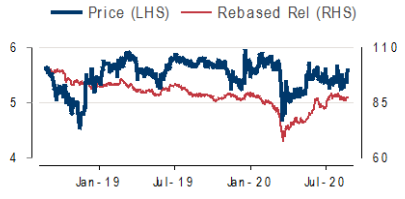
Financial and valuation metrics

Year	12/19A	12/20E	12/21E	12/22E
Revenue (RM mn)	14,912.5	13,091.4	17,689.9	19,614.9
EBITDA (RM mn)	3,096.4	2,552.8	3,891.8	4,472.2
EBIT (RM mn)	1,740.9	927.5	2,295.0	2,905.9
Net profit (RM mn)	920.6	460.1	1,115.6	1,520.3
EPS (CS adj.) (RM)	0.1	0.05	0.13	0.17
Chg. from prev. EPS (%)	n.a.	0.0	0.0	0.0
Consensus EPS (RM)	n.a.	0.07	0.12	0.15
EPS growth (%)	(15.7)	(50.0)	142.5	36.3
P/E (x)	53.2	106.4	43.9	32.2
Dividend yield (%)	0.7	0.2	0.6	0.8
EV/EBITDA (x)	17.2	20.8	13.2	11.1
P/B (x)	2.19	2.16	2.08	1.98
ROE (%)	4.2	2.0	4.8	6.3
Net debt/equity (%)	15.3	14.9	8.7	2.8

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



The price relative chart measures performance against the FTSE BURSA MALAYSIA KLCI IDX which closed at 1,577.12 on 21/08/20. On 21/08/20 the spot exchange rate was RM4.18/US$1

Performance	1M	3M	12M
Absolute (%)	3.5	2.8	(1.6)
Relative (%)	4.1	(7.0)	(0.0)

CREDIT SUISSE

IHH Healthcare Berhad (IHHH.KL / IHH MK)

Analyst: **Amanda Foo**

Price (21 Aug 2020): **RM5.58**

Target Price: **RM6.25**

Rating: **Outperform**

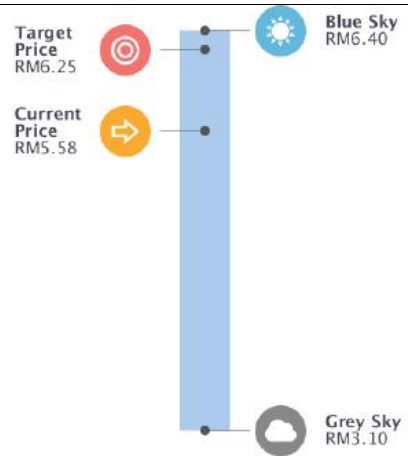
Income Statement (RM mn)	12/19A	12/20E	12/21E	12/22E
Sales revenue	**14,912**	**13,091**	**17,690**	**19,615**
Cost of goods sold	4,508	3,797	5,219	5,728
EBITDA	**3,096**	**2,553**	**3,892**	**4,472**
EBIT	**1,741**	**928**	**2,295**	**2,906**
Net interest expense/(inc.)	772	772	814	804
Recurring PBT	**1,043**	**155**	**1,493**	**2,114**
Profit after tax	**515**	**132**	**1,120**	**1,586**
Reported net profit	**551**	**460**	**1,116**	**1,520**
Net profit (Credit Suisse)	**921**	**460**	**1,116**	**1,520**
Balance Sheet (RM mn)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Cash & cash equivalents	4,715	4,734	6,302	7,970
Current receivables	2,108	1,786	2,413	2,675
Inventories	350	295	406	445
Other current assets	453	453	453	453
Current assets	**7,626**	**7,268**	**9,574**	**11,544**
Property, plant & equip.	11,787	17,619	17,283	16,976
Investments	3,508	3,508	3,508	3,508
Intangibles	14,656	14,614	14,574	14,534
Other non-current assets	7,476	1,331	1,343	1,355
Total assets	**45,053**	**44,340**	**46,281**	**47,916**
Current liabilities	**5,349**	**4,687**	**5,879**	**6,309**
Total liabilities	**16,959**	**16,206**	**17,306**	**17,736**
Total debt	9,026	8,926	8,826	8,826
Shareholders' equity	**22,340**	**22,708**	**23,544**	**24,685**
Minority interests	3,596	3,268	3,272	3,338
Total liabilities & equity	**45,053**	**44,340**	**46,281**	**47,916**
Cash Flow (RM mn)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
EBIT	**1,741**	**928**	**2,295**	**2,906**
Net interest	0	0	0	0
Tax paid	(575)	(23)	(373)	(529)
Working capital	(524)	(276)	463	128
Other cash & non-cash items	1,806	1,625	1,597	1,566
Operating cash flow	**2,447**	**2,253**	**3,981**	**4,071**
Capex	(1,219)	(1,270)	(1,220)	(1,220)
Free cash flow to the firm	**1,228**	**983**	**2,761**	**2,851**
Investing cash flow	**(2,595)**	**(1,139)**	**(1,140)**	**(1,140)**
Equity raised	0	0	0	0
Dividends paid	(263)	(92)	(279)	(380)
Financing cash flow	**(2,909)**	**(1,096)**	**(1,272)**	**(1,264)**
Total cash flow	**(3,057)**	**19**	**1,568**	**1,668**
Adjustments	0	0	0	0
Net change in cash	**(3,057)**	**19**	**1,568**	**1,668**
Per share	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Shares (wtd avg.) (mn)	8,775	8,775	8,775	8,775
EPS (Credit Suisse) (RM)	**0.10**	**0.05**	**0.13**	**0.17**
DPS (RM)	0.04	0.01	0.03	0.04
Operating CFPS (RM)	0.28	0.26	0.45	0.46
Earnings	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Growth (%)				
Sales revenue	29.4	(12.2)	35.1	10.9
EBIT	12.5	(46.7)	147.4	26.6
EPS	(15.7)	(50.0)	142.5	36.3
Margins (%)				
EBITDA	20.8	19.5	22.0	22.8
EBIT	11.7	7.1	13.0	14.8
Valuation (x)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
P/E	53.2	106.4	43.9	32.2
P/B	2.19	2.16	2.08	1.98
Dividend yield (%)	0.7	0.2	0.6	0.8
EV/sales	3.6	4.1	2.9	2.5
EV/EBITDA	17.2	20.8	13.2	11.1
EV/EBIT	30.6	57.3	22.4	17.1
ROE analysis (%)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
ROE	4.2	2.0	4.8	6.3
ROIC	2.7	2.4	5.4	7.0
Credit ratios	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Net debt/equity (%)	15.3	14.9	8.7	2.8
Net debt/EBITDA (x)	1.39	1.64	0.65	0.19

Source: Company data, Refinitiv, Credit Suisse estimates

Company Background

IHH Healthcare Berhad is a private healthcare group focused on upmarket health services, and Asia's largest private healthcare group. IHH operates in five segments: Parkway Pantai, Acibadem Holdings, IMU Health, PLife REIT, and Others.

Blue/Grey Sky Scenario



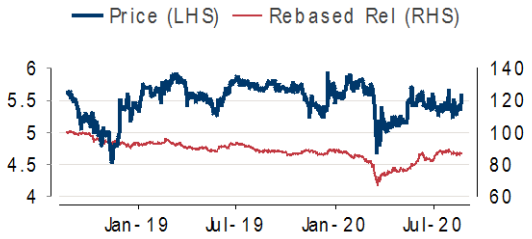
Our Blue Sky Scenario (RM) **6.40**

Our blue sky scenario valuation of RM6.40 is derived using IHH's five-year high EV/EBITDA multiple of 26x.

Our Grey Sky Scenario (RM) **3.10**

Our grey sky scenario valuation of RM3.10 is derived using IHH's five-year low EV/EBITDA multiple of 14x.

Share price performance



The price relative chart measures performance against the FTSE BURSA MALAYSIA KLCI IDX which closed at 1,577.12 on 21-Aug-2020
On 21-Aug-2020 the spot exchange rate was RM4.18/US$1

CREDIT SUISSE

Alibaba Group Holding Limited

Ecosystem caters to various demands of senior netizens

BABA

Target price (12M, US$)
309.00

Outperform

Consumer Internet

- **Senior netizens seek quality choices.** Taobao has ~10% of its active users as senior netizens, compared to a mere 2% for Pinduoduo, according to QuestMobile. In our view, this is likely attributable to Taobao's wider product selection (especially for health care, personal care, and daily household products) and more branded product offerings, which tend to attract the trust of senior buyers. In comparison, senior users put less emphasis on value-for-money and white-labelled products that were offered the most by Pinduoduo. Alipay is also among the top 5 most actively used apps. Data from Alibaba's National Holiday 2019 survey–shows that the "silver" cohort not only knows how to order food delivery, they enjoy online shopping, love to travel, and are willing to spend on high-end body check-ups and medical cosmetology.
- **Expanding TAM.** Baba addresses an Rmn42 tn online + offline retail market (2021E). It not only provides the highest exposure to e-commerce, but also expands its offline foot print through omni-channel (freshippo) and on-demand retail (Taoxianda, half-day delivery service). Its exposure to new e-commerce formats including live-streaming, new fresh produce and C2M helps it to tap into the largest incremental GMV in the coming years.
- **Cloud segment value to be unlocked.** Cloud is on track to approach break-even in 2H FY21. This becomes more likely due to the pent-up demand from the lockdown across the nation in 1H20, as well as heightened demand on digitisation post COVID-19 across industries. We expect the cloud segment's revenue growth to re-accelerate to 50%+ in 2H FY21, paving the way for margin improvement and a rerating. We value cloud at US$42/share based on 10x forward P/S, meaningfully above the street.
- **Valuation.** Our SOTP-based TP is US$309.0 and HK$301, with core business at US$221 (20x FY21/22 EV/EBITA), Cloud at US$42, local service/Cainiao/DME at US$22/17/9, and investment + net cash at US$163, before applying 10% holding discount. Baba is trading at 24x 2022 P/E, at a discount to Tencent's 29x and Meituan's 87x. From a P/S aspect, it also trades at an unjustified 40% discount to PDD at 5.8x. Despite the challenging macro and its growing base, Baba consistently delivers quality results that are ahead of expectations, which deserves a rerating, in our view. Upcoming HSI and southbound inclusions would serve as positive catalysts on the share price.

Price (21 Aug 20, US$)	265.80
Upside/downside (%)	16.3
Mkt cap (US$ mn)	718,899
Enterprise value (Rmb mn)	4,652,008
Number of shares (mn)	2,705
Free float (%)	68.4
52-wk price range (US$)	266-162
ADTO-6M (US$ mn)	807.8

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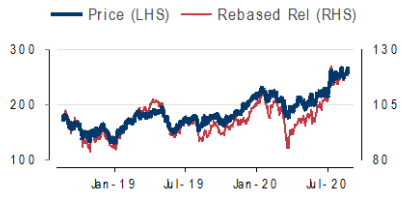
Financial and valuation metrics

Year	3/20A	3/21E	3/22E	3/23E
Revenue (Rmb mn)	509,711	672,567	858,484	1,070,843
EBITDA (Rmb mn)	157,659	201,898	252,394	309,474
EBIT (Rmb mn)	91,430.0	126,524	158,583	198,349
Net profit (Rmb mn)	141,344	168,616	205,642	247,455
EPS (CS adj.) (Rmb)	52.97	61.94	75.52	90.86
Chg. from prev. EPS (%)	n.a.	0.0	0.0	0.0
Consensus EPS (Rmb)	n.a.	62.29	78.56	99.46
EPS growth (%)	37.9	16.9	21.9	20.3
P/E (x)	34.7	29.7	24.3	20.2
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/EBITDA (x)	29.9	22.5	17.3	13.3
P/B (x)	6.42	5.27	4.33	3.57
ROE (%)	22.4	19.7	19.5	19.3
Net debt/equity (%)	(28.8)	(40.0)	(48.5)	(55.6)

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



The price relative chart measures performance against the MSCI CHINA F IDX which closed at 10,025.38 on 21/08/20. On 21/08/20 the spot exchange rate was US$1/US$1

Performance	1M	3M	12M
Absolute (%)	5.6	33.1	54.6
Relative (%)	3.1	9.0	25.1

CREDIT SUISSE

Alibaba Group Holding Limited (BABA.N / BABA US)

Analyst: **Tina Long**

Price (21 Aug 2020): **US$265.80**

Target Price: **US$309.00**

Rating: **Outperform**

Income Statement (Rmb mn)	03/20A	03/21E	03/22E	03/23E
Sales revenue	**509,711**	**672,567**	**858,484**	**1,070,843**
Cost of goods sold	282,367	380,491	493,628	624,920
EBITDA	**157,659**	**201,898**	**252,394**	**309,474**
EBIT	**91,430**	**126,524**	**158,583**	**198,349**
Net interest expense/(inc.)	(67,776)	(28,042)	(15,374)	(20,515)
Recurring PBT	**166,645**	**160,046**	**176,533**	**222,077**
Profit after tax	**146,083**	**130,430**	**144,757**	**182,103**
Reported net profit	**149,263**	**149,163**	**165,141**	**202,487**
Net profit (Credit Suisse)	**141,344**	**168,616**	**205,642**	**247,455**
Balance Sheet (Rmb mn)	**03/20A**	**03/21E**	**03/22E**	**03/23E**
Cash & cash equivalents	378,694	551,062	742,411	969,564
Current receivables	0	0	0	0
Inventories	0	0	0	0
Other current assets	84,229	112,094	143,081	178,474
Current assets	**462,923**	**663,157**	**885,491**	**1,148,038**
Property, plant & equip.	103,387	169,905	255,754	362,838
Investments	350,961	350,961	350,961	350,961
Intangibles	337,729	328,868	315,377	297,312
Other non-current assets	57,985	57,985	58,985	59,985
Total assets	**1,312,985**	**1,570,877**	**1,866,568**	**2,219,134**
Current liabilities	**241,872**	**305,091**	**383,823**	**475,635**
Total liabilities	**433,334**	**505,738**	**595,592**	**700,729**
Total debt	125,430	125,430	125,530	125,630
Shareholders' equity	**764,504**	**949,992**	**1,155,830**	**1,403,259**
Minority interests	115,147	115,147	115,147	115,147
Total liabilities & equity	**1,312,985**	**1,570,877**	**1,866,568**	**2,219,134**
Cash Flow (Rmb mn)	**03/20A**	**03/21E**	**03/22E**	**03/23E**
EBIT	**91,430**	**126,524**	**158,583**	**198,349**
Net interest	67,776	28,042	15,374	20,515
Tax paid	(20,562)	(29,615)	(31,776)	(39,974)
Working capital	21,418	35,759	47,232	56,001
Other cash & non-cash items	20,545	103,981	122,923	142,980
Operating cash flow	**180,607**	**264,691**	**312,336**	**377,872**
Capex	(45,386)	(96,423)	(125,188)	(154,918)
Free cash flow to the firm	**130,914**	**168,268**	**187,148**	**222,954**
Investing cash flow	**(108,072)**	**(96,423)**	**(125,188)**	**(154,918)**
Equity raised	91,506	0	0	0
Dividends paid	(278)	0	0	0
Financing cash flow	**70,853**	**0**	**100**	**100**
Total cash flow	**143,388**	**168,268**	**187,248**	**223,054**
Adjustments	4,100	4,100	4,100	4,100
Net change in cash	**147,488**	**172,368**	**191,348**	**227,154**
Per share	**03/20A**	**03/21E**	**03/22E**	**03/23E**
Shares (wtd avg.) (mn)	2,668	2,722	2,723	2,724
EPS (Credit Suisse) (Rmb)	**52.97**	**61.94**	**75.52**	**90.86**
DPS (Rmb)	0.00	0.00	0.00	0.00
Operating CFPS (Rmb)	67.62	97.23	114.71	138.74
Earnings	**03/20A**	**03/21E**	**03/22E**	**03/23E**
Growth (%)				
Sales revenue	35.3	32.0	27.6	24.7
EBIT	60.2	38.4	25.3	25.1
EPS	37.9	16.9	21.9	20.3
Margins (%)				
EBITDA	30.9	30.0	29.4	28.9
EBIT	17.9	18.8	18.5	18.5
Valuation (x)	**03/20A**	**03/21E**	**03/22E**	**03/23E**
P/E	34.7	29.7	24.3	20.2
P/B	6.42	5.27	4.33	3.57
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/sales	9.3	6.8	5.1	3.9
EV/EBITDA	29.9	22.5	17.3	13.3
EV/EBIT	51.6	35.9	27.5	20.8
ROE analysis (%)	**03/20A**	**03/21E**	**03/22E**	**03/23E**
ROE	22.4	19.7	19.5	19.3
ROIC	13.8	16.3	20.1	24.5
Credit ratios	**03/20A**	**03/21E**	**03/22E**	**03/23E**
Net debt/equity (%)	(28.8)	(40.0)	(48.5)	(55.6)
Net debt/EBITDA (x)	(1.61)	(2.11)	(2.44)	(2.73)

Source: Company data, Refinitiv, Credit Suisse estimates

Company Background

Alibaba is an e-commerce company in China. It operates Taobao, Tmall, Juhuasuan, Alibaba.com, 1688.com, amongst many other services in e-commerce, OTA, online video, cloud, and etc.

Blue/Grey Sky Scenario

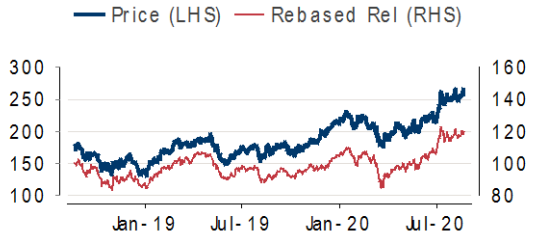
Our Blue Sky Scenario (US$) **350.00**

Our blue sky scenario assumes faster than expected macro economy, continued market share expansion, well-contained loss from new initiatives with effective execution. Under such a scenario, our valuation would be US$350.

Our Grey Sky Scenario (US$) **200.00**

Our grey sky scenario assumes stronger headwinds in the e-commerce sector with macro economy slowdown, market share cannibalisation by peers, and the worst margin due to aggressive spending for marketing as well as new initiatives. Under such a scenario, our valuation would be US$200.

Share price performance



The price relative chart measures performance against the MSCI CHINA F IDX which closed at 10,025.38 on 21-Aug-2020

On 21-Aug-2020 the spot exchange rate was US$1/US$1

CREDIT SUISSE

JD.com

Preferred destination with quality choices

Consumer Internet

JD

FOCUS LIST STOCK

Target price (12M, US$)
80.00

Outperform

- **JD is a preferred destination for senior netizens.** Senior netizens in China are generally wealthier, owning fixed assets and savings. Most of their disposable incomes are spent on health care, travel/leisure, and to support their children/grandchildren. They place "quality" and "necessity" over "price" when making shopping decisions. Questmobile ranked the categories that are most preferred by senior buyers when shopping online, and the top-ranked categories are home appliances/consumer electronics/3C, food, and sports related products, most of which are dominated by JD among the online channels. Additionally, JD's strong product offering in healthcare products and branded products caters to senior citizens' differentiated demands. As such, JD will likely continue to be the preferred shopping destination for senior citizens down the road.
- **Solid execution improves its earnings visibility.** JD has delivered six sets of strong quarterly results in a row, a showcase of improving fundamentals and management execution. The strategic focus on supermarket, healthcare and omni-channel expansion bodes well for continued acceleration in user acquisitions and engagement, paving the way for healthy revenue growth and margin expansion.
- **Upcoming catalysts.** JD is unlocking the value of its asset through external financing or potential spin-off of multiple business lines. JD Digits, 36.8% owned by JD, is seeking an IPO on Shanghai's STAR market later this year. JD Digits was valued at US$19 bn in the last round of financing. JD Health recently entered into a definitive agreement with Hillhouse for financing, raising over US$830 mn, after which JD would remain the majority shareholder. The potential listing of JD Logistics would also unlock the value of JD's 81% stake in hand. Upcoming listing and external financing would support the share price.
- **Valuation.** Our SOTP-based TP is US$80.0 and HK$311.0, with JD Retail at US$60 (or 30.0x 2021 P/E), JDL at US$11.0 JD Health at US$9. In terms of valuation, JD had a nice run YTD with >100% share price rally, and trading at 37x 2021 P/E, against 36% EPS CAGR over 2019-22E. We expect JD's consistent implementation of its strategy to drive a continued rerating. The potential listing of JD Health, JDL and JD Digits will steadily unlock the hidden value of the stock.

Price (21 Aug 20, US$)	74.98
Upside/downside (%)	6.7
Mkt cap (US$ mn)	116,605
Enterprise value (Rmb mn)	743,710
Number of shares (mn)	1,555
Free float (%)	68.3
52-wk price range (US$)	74.98-27.73
ADTO-6M (US$ mn)	278.7

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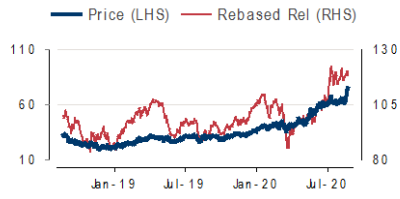
Financial and valuation metrics

Year	12/19A	12/20E	12/21E	12/22E
Revenue (Rmb mn)	576,888	729,547	884,369	1,052,825
EBITDA (Rmb mn)	11,613.9	15,035.7	19,692.6	27,742.5
EBIT (Rmb mn)	8,994.9	11,615.4	15,499.9	22,182.5
Net profit (Rmb mn)	10,749.9	16,695.9	21,225.3	28,173.7
EPS (CS adj.) (Rmb)	7.25	11.01	13.93	18.39
Chg. from prev. EPS (%)	n.a.	0.0	0.0	0.0
Consensus EPS (Rmb)	n.a.	10.39	15.11	20.06
EPS growth (%)	208.2	52.0	26.5	32.1
P/E (x)	71.6	47.1	37.2	28.2
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/EBITDA (x)	67.1	48.1	36.2	25.1
P/B (x)	7.65	5.15	4.68	4.15
ROE (%)	12.1	13.2	13.2	15.6
Net debt/equity (%)	(26.8)	(54.3)	(55.7)	(58.3)

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



The price relative chart measures performance against the MSCI CHINA F IDX which closed at 10,025.38 on 21/08/20. On 21/08/20 the spot exchange rate was US$1/US$1

Performance	1M	3M	12M
Absolute (%)	21.2	50.3	154.3
Relative (%)	18.8	26.1	124.8

JD.com (JD.OQ / JD US)

Price (21 Aug 2020): **US$74.98** Target Price: **US$80.00**

Analyst: **Tina Long**

Rating: **Outperform**

Income Statement (Rmb mn)	12/19A	12/20E	12/21E	12/22E
Sales revenue	**576,888**	**729,547**	**884,369**	**1,052,825**
Cost of goods sold	492,467	621,493	751,695	893,717
EBITDA	**11,614**	**15,036**	**19,693**	**27,743**
EBIT	**8,995**	**11,615**	**15,500**	**22,183**
Net interest expense/(inc.)	(1,061)	(1,776)	(3,230)	(3,857)
Recurring PBT	**13,693**	**24,110**	**18,730**	**26,039**
Profit after tax	**11,890**	**22,245**	**15,274**	**21,453**
Reported net profit	**12,184**	**22,295**	**15,274**	**21,453**
Net profit (Credit Suisse)	**10,750**	**16,696**	**21,225**	**28,174**
Balance Sheet (Rmb mn)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Cash & cash equivalents	36,971	95,084	106,081	123,633
Current receivables	6,191	10,133	12,283	14,623
Inventories	57,932	72,508	87,698	104,267
Other current assets	38,000	43,516	48,565	54,097
Current assets	**139,095**	**221,240**	**254,626**	**296,620**
Property, plant & equip.	20,654	19,610	19,538	19,866
Investments	35,576	32,018	35,220	38,742
Intangibles	10,754	9,788	8,575	7,246
Other non-current assets	53,646	66,793	80,797	97,535
Total assets	**259,724**	**349,449**	**398,756**	**460,009**
Current liabilities	**140,017**	**175,556**	**208,903**	**247,375**
Total liabilities	**159,099**	**196,638**	**229,986**	**268,457**
Total debt	10,052	12,052	12,052	12,052
Shareholders' equity	**100,624**	**152,811**	**168,771**	**191,551**
Minority interests	0	0	0	0
Total liabilities & equity	**259,724**	**349,449**	**398,756**	**460,009**
Cash Flow (Rmb mn)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
EBIT	**8,995**	**11,615**	**15,500**	**22,183**
Net interest	6,436	9,611	3,230	3,857
Tax paid	(3,541)	1,019	(3,455)	(4,586)
Working capital	7,766	10,819	9,660	10,269
Other cash & non-cash items	5,125	5,094	5,475	6,230
Operating cash flow	**24,781**	**38,159**	**30,409**	**37,952**
Capex	(2,597)	(3,500)	(3,850)	(4,235)
Free cash flow to the firm	**22,184**	**34,659**	**26,559**	**33,717**
Investing cash flow	**(25,349)**	**(12,452)**	**(19,818)**	**(20,806)**
Equity raised	6,630	30,000	0	0
Dividends paid	0	0	0	0
Financing cash flow	**2,572**	**32,000**	**0**	**0**
Total cash flow	**2,004**	**57,706**	**10,591**	**17,147**
Adjustments	406	406	406	406
Net change in cash	**2,410**	**58,112**	**10,997**	**17,553**
Per share	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Shares (wtd avg.) (mn)	1,484	1,516	1,524	1,532
EPS (Credit Suisse) (Rmb)	**7.25**	**11.01**	**13.93**	**18.39**
DPS (Rmb)	0.00	0.00	0.00	0.00
Operating CFPS (Rmb)	16.70	25.16	19.95	24.78
Earnings	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Growth (%)				
Sales revenue	24.9	26.5	21.2	19.0
EBIT	443.4	29.1	33.4	43.1
EPS	208.2	52.0	26.5	32.1
Margins (%)				
EBITDA	2.0	2.1	2.2	2.6
EBIT	1.6	1.6	1.8	2.1
Valuation (x)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
P/E	71.6	47.1	37.2	28.2
P/B	7.65	5.15	4.68	4.15
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/sales	1.4	1.0	0.8	0.7
EV/EBITDA	67.1	48.1	36.2	25.1
EV/EBIT	86.7	62.3	46.0	31.3
ROE analysis (%)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
ROE	12.1	13.2	13.2	15.6
ROIC	12.0	14.9	17.5	23.6
Credit ratios	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Net debt/equity (%)	(26.8)	(54.3)	(55.7)	(58.3)
Net debt/EBITDA (x)	(2.32)	(5.52)	(4.77)	(4.02)

Source: Company data, Refinitiv, Credit Suisse estimates

Company Background

JD.com is the largest online B2C retailer in China.

Blue/Grey Sky Scenario

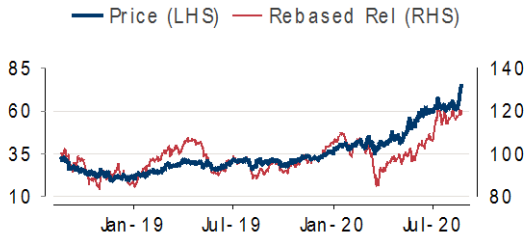
Our Blue Sky Scenario (US$) **90.00**

Our blue sky scenario valuation of US$90 assumes: (1) GMV grows faster than expected, leveraging JD's brand equity; and (2) margin expands as logistics turns around.

Our Grey Sky Scenario (US$) **60.00**

Our grey sky scenario valuation of US$60 assumes: (1) higher-than-expected impact from competition; and (2) logistics service sees difficulty improving efficiency, resulting in a large margin drag.

Share price performance



The price relative chart measures performance against the MSCI CHINA F IDX which closed at 10,025.38 on 21-Aug-2020

On 21-Aug-2020 the spot exchange rate was US$1/US$1

CREDIT SUISSE

Li Ning

Long-term story intact but heavy discounting remains near-term headwind

2331.HK

Target price (12M, HK$)
29.00

Neutral

Apparel

- **Baby boomers spend over 35% of their time exercising.** CQi highlighted that baby boomers spend over 35% of their daily entertainment activities on exercise, just behind their first choice of surfing online social platforms. After retiring, baby boomers expect that they will walk more as exercise, followed by running and dancing. Residents in higher-tier cities are inclined to hike and swim more than those in lower-tier cities.
- **Li Ning is the preferred domestic brand among those ready to retire.** According to the CQi survey, when asked which sportswear brands they buy, baby boomers listed Li Ning and Nike as their No.1 and No. 2 choices. Being a nationalistic brand built on the name of the Chinese Olympic gymnast, we believe the Li Ning brand resonates with the generation aged 49-60. To capture this market, brands could potentially launch SKUs targeted at walking and running activities, or host dancing festivals for tier 1 consumers to participate in.
- **July retail sales have been sluggish for the sportswear industry.** Our channel checks suggest that post the strong recovery momentum in April and May, sportswear brands have seen a slowdown in retail sales growth in June and July. Distributors have mentioned that their inventory to sales levels are at 6-8x, vs normal levels of 4-5x, contributing to higher discounts at 30-35% in June/July, vs normal levels of 20-25%. This suggests that the heavy discounting environment is likely to continue into 2H20, and even 1H21 in our view. Recent trade order fairs have seen MSD-HSD YoY growth for 4Q20/1Q21 products.
- **Long-term story is intact but near-term headwinds remain.** We see Li Ning as the best-positioned domestic brand to be able to capture the increased growth from the baby boomers, should the company properly execute its strategy, and is a medium-term margin-expansion story with business reform well under way. However, high inventory levels suggest that destocking will take time, putting pressure on industry growth and margins into 2021. We believe the risk-reward for Li Ning is fair at current levels as the stock is trading at 33x 2021 P/E, suggesting that the market is already pricing in a meaningful recovery into 2021.

Price (21 Aug 20, HK$)	32.20
Upside/downside (%)	-9.9
Mkt cap (HK$/US$ mn)	79,848 / 10,303
Enterprise value (Rmb mn)	64,898
Number of shares (mn)	2,480
Free float (%)	86.2
52-wk price range (HK$)	32.65-16.36
ADTO-6M (US$ mn)	56.4

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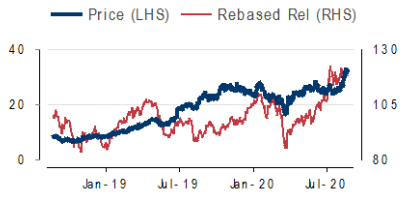
Financial and valuation metrics

Year	12/19A	12/20E	12/21E	12/22E
Revenue (Rmb mn)	13,869.6	14,298.4	17,272.4	21,054.7
EBITDA (Rmb mn)	2,003.8	2,444.7	3,166.3	3,954.5
EBIT (Rmb mn)	1,543.2	1,868.5	2,592.4	3,315.7
Net profit (Rmb mn)	1,499.2	1,551.9	2,111.0	2,622.6
EPS (CS adj.) (Rmb)	0.62	0.64	0.87	1.08
Chg. from prev. EPS (%)	n.a.	0.0	0.0	0.0
Consensus EPS (Rmb)	n.a.	0.64	0.87	1.1
EPS growth (%)	109.0	3.5	36.0	24.2
P/E (x)	46.4	44.8	33.0	26.5
Dividend yield (%)	0.5	0.7	0.9	1.1
EV/EBITDA (x)	32.6	26.5	19.9	15.5
P/B (x)	9.76	8.47	7.18	6.04
ROE (%)	23.2	20.2	23.6	24.7
Net debt/equity (%)	(83.7)	(80.5)	(84.3)	(88.2)

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



The price relative chart measures performance against the MSCI CHINA F IDX which closed at 10,025.38 on 21/08/20. On 21/08/20 the spot exchange rate was HK$7.75/US$1

Performance	1M	3M	12M
Absolute (%)	32.5	28.8	42.8
Relative (%)	30.1	4.7	13.3

Li Ning (2331.HK / 2331 HK)

Price (21 Aug 2020): **HK$32.20**

Target Price: **HK$29.00**

Analyst: **Jesalyn Wong**

Rating: **Neutral**

Income Statement (Rmb mn)	12/19A	12/20E	12/21E	12/22E
Sales revenue	**13,870**	**14,298**	**17,272**	**21,055**
Cost of goods sold	7,064	7,243	8,669	10,556
EBITDA	**2,004**	**2,445**	**3,166**	**3,955**
EBIT	**1,543**	**1,869**	**2,592**	**3,316**
Net interest expense/(inc.)	30	(20)	(24)	(31)
Recurring PBT	**1,857**	**1,940**	**2,672**	**3,406**
Profit after tax	**1,499**	**1,552**	**2,111**	**2,623**
Reported net profit	**1,499**	**1,552**	**2,111**	**2,623**
Net profit (Credit Suisse)	**1,499**	**1,552**	**2,111**	**2,623**
Balance Sheet (Rmb mn)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Cash & cash equivalents	5,961	6,609	8,167	10,166
Current receivables	687	1,175	1,420	1,615
Inventories	1,407	1,548	1,876	2,314
Other current assets	484	485	494	504
Current assets	**8,539**	**9,817**	**11,957**	**14,599**
Property, plant & equip.	1,039	1,034	1,151	1,355
Investments	0	0	0	0
Intangibles	193	193	193	193
Other non-current assets	2,776	2,776	2,776	2,776
Total assets	**12,547**	**13,821**	**16,078**	**18,923**
Current liabilities	**4,717**	**4,904**	**5,683**	**6,692**
Total liabilities	**5,423**	**5,611**	**6,390**	**7,399**
Total debt	0	0	0	0
Shareholders' equity	**7,124**	**8,211**	**9,688**	**11,524**
Minority interests	0	0	0	0
Total liabilities & equity	**12,547**	**13,821**	**16,078**	**18,923**
Cash Flow (Rmb mn)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
EBIT	**1,543**	**1,869**	**2,592**	**3,316**
Net interest	0	0	0	0
Tax paid	(144)	(388)	(561)	(783)
Working capital	1,176	(443)	198	366
Other cash & non-cash items	927	627	630	698
Operating cash flow	**3,503**	**1,665**	**2,859**	**3,596**
Capex	(686)	(572)	(691)	(842)
Free cash flow to the firm	**2,818**	**1,093**	**2,168**	**2,754**
Investing cash flow	**(573)**	**(542)**	**(658)**	**(801)**
Equity raised	(108)	0	0	0
Dividends paid	(215)	(466)	(633)	(787)
Financing cash flow	**(322)**	**(475)**	**(643)**	**(796)**
Total cash flow	**2,608**	**648**	**1,558**	**1,998**
Adjustments	8	0	0	0
Net change in cash	**2,616**	**648**	**1,558**	**1,998**
Per share	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Shares (wtd avg.) (mn)	2,420	2,420	2,420	2,420
EPS (Credit Suisse) (Rmb)	**0.62**	**0.64**	**0.87**	**1.08**
DPS (Rmb)	0.15	0.19	0.26	0.33
Operating CFPS (Rmb)	1.45	0.69	1.18	1.49
Earnings	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Growth (%)				
Sales revenue	32.0	3.1	20.8	21.9
EBIT	98.6	21.1	38.7	27.9
EPS	109.0	3.5	36.0	24.2
Margins (%)				
EBITDA	14.4	17.1	18.3	18.8
EBIT	11.1	13.1	15.0	15.7
Valuation (x)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
P/E	46.4	44.8	33.0	26.5
P/B	9.76	8.47	7.18	6.04
Dividend yield (%)	0.5	0.7	0.9	1.1
EV/sales	4.7	4.5	3.7	2.9
EV/EBITDA	32.6	26.5	19.9	15.5
EV/EBIT	42.3	34.6	24.3	18.4
ROE analysis (%)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
ROE	23.2	20.2	23.6	24.7
ROIC	75.3	108.2	131.2	177.3
Credit ratios	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Net debt/equity (%)	(83.7)	(80.5)	(84.3)	(88.2)
Net debt/EBITDA (x)	(2.98)	(2.70)	(2.58)	(2.57)

Source: Company data, Refinitiv, Credit Suisse estimates

Company Background

Li Ning Company Limited researches, designs, manufactures, distributes, and retails sports footwear, apparel and accessories for sport and leisure use.

Blue/Grey Sky Scenario

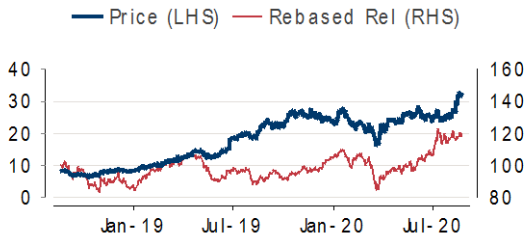
Our Blue Sky Scenario (HK$) **41.60**

Our blue sky scenario value of HK$41.60 assumes less competition in the sportswear industry, which leads to higher operating margin, higher sales assumption and will further rerate the stock to 40x P/E, implying 1x 2021PEG.

Our Grey Sky Scenario (HK$) **20.80**

Our grey sky scenario value of HK$20.80 assumes more competition in the sportswear industry, which leads to lower operating margin, lower sales assumption and will derate the stock to 20x P/E.

Share price performance



The price relative chart measures performance against the MSCI CHINA F IDX which closed at 10,025.38 on 21-Aug-2020

On 21-Aug-2020 the spot exchange rate was HK$7.75/US$1

CREDIT SUISSE

China Resources Medical Holdings Company Limited

Potential benefactor to increased government funding in healthcare

Healthcare Facilities

1515.HK

Target price (12M, HK$)
4.51

Outperform

- **CR Medical operates one of the largest hospital networks in Asia.** Its portfolio includes 107 medical institutions in China, which include 5 Grade III hospitals, 18 Grade II hospitals, and 84 Grade I hospitals and clinics. The company operates over 10,000+ beds and had over 9 mn patient visits across its medical institutions in 2019.
- **In-network hospitals could be recipients of government funding.** CR Medical's in-network hospitals mostly consist of public hospitals and are managed through a for-profit model, sponsored hospitals model, or IOT/OT hospital model. We believe that CR Medical could be a beneficiary of increased public healthcare funding by the central government, as many of its in-network hospitals could be recipients of the government funding. As government funding could be used at public hospitals to upgrade/build-out ICU wards and other investments in hospital infrastructure, these improvements could help boost the hospital's in-patient and out-patient revenue, and/or improve the hospital's utilisation rate. These improvements would be beneficial to CR Medical as its revenue is derived from medical income from in-network hospitals.
- **Key drivers.** Key near-term growth drivers for CR Medical include the acquisition of Liaoning and Jiangxi projects into the listco from its parent company, and the COVID-19 recovery timeline. According to management during the profit-warning announcement, 1H20 net profit recorded a decrease of ~40% YoY due to the COVID-19 impact as the total number of patient visits decreased by ~25% as of Jun-2020. Since Jun-2020, business operation has returned to normal levels compared to the same time last year and we think that patient traffic will continue to rebound in 2H20.
- **Short-term impact on FY20 earnings unlikely to last.** We like the company as, although there is a short-term impact on FY20 earnings, these hospitals will return to normal operations in the longer term. In addition, we think that after the outbreak, there may be increased public healthcare funding to support the expansion of healthcare facilities. Our TP is based on the multi-stage DCF model, with 8.4% WACC and 2% perpetual growth rate. Downside risks include longer impact due to the COVID-19 outbreak, and slower recovery post COVID-19.

Price (21 Aug 20, HK$)	5.60
Upside/downside (%)	-19.5
Mkt cap (HK$/US$ mn)	7,261 / 936.97
Enterprise value (Rmb mn)	5,263
Number of shares (mn)	1,297
Free float (%)	20.0
52-wk price range (HK$)	6.23-3.05
ADTO-6M (US$ mn)	3.2

Research Analysts

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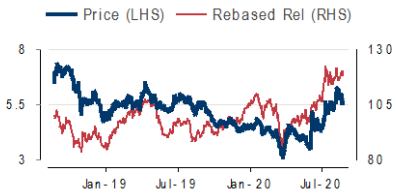
Financial and valuation metrics

Year	12/19A	12/20E	12/21E
Revenue (Rmb mn)	2,115.3	2,151.4	2,431.2
EBITDA (Rmb mn)	758.7	863.5	958.7
EBIT (Rmb mn)	584.0	671.2	746.3
Net profit (Rmb mn)	390.9	477.1	531.6
EPS (CS adj.) (Rmb)	0.3	0.37	0.41
Chg. from prev. EPS (%)	n.a.	0.0	0.0
Consensus EPS (Rmb)	n.a.	0.31	0.35
EPS growth (%)	(9.3)	22.1	11.4
P/E (x)	16.6	13.6	12.2
Dividend yield (%)	0.0	0.0	0.0
EV/EBITDA (x)	7.2	6.0	5.0
P/B (x)	1.11	1.04	0.97
ROE (%)	6.8	7.9	8.2
Net debt/equity (%)	(17.5)	(20.7)	(24.3)

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



The price relative chart measures performance against the MSCI CHINA F IDX which closed at 10,025.38 on 21/08/20. On 21/08/20 the spot exchange rate was HK$7.75/US$1

Performance	1M	3M	12M
Absolute (%)	1.4	51.8	0.5
Relative (%)	(1.0)	27.6	(28.9)

China Resources Medical Holdings Company Limited (1515.HK / 1515 HK)

Analyst:
Jason Liu

Price (21 Aug 2020): **HK$5.60** Target Price: **HK$4.51** Rating: **Outperform**

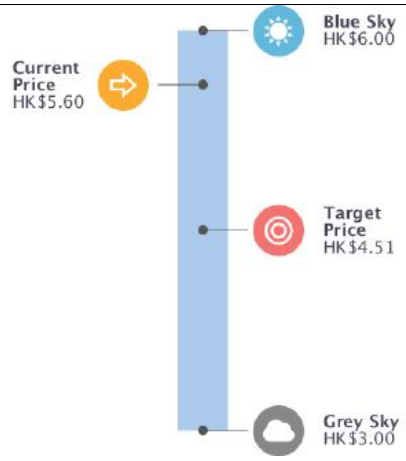
Income Statement (Rmb mn)	12/19A	12/20E	12/21E
Sales revenue	**2,115**	**2,151**	**2,431**
Cost of goods sold	1,353	1,340	1,517
EBITDA	**759**	**864**	**959**
EBIT	**584**	**671**	**746**
Net interest expense/(inc.)	17	4	4
Recurring PBT	**541**	**658**	**732**
Profit after tax	**401**	**487**	**541**
Reported net profit	**391**	**477**	**532**
Net profit (Credit Suisse)	**391**	**477**	**532**
Balance Sheet (Rmb mn)	**12/19A**	**12/20E**	**12/21E**
Cash & cash equivalents	1,787	2,063	2,407
Current receivables	469	477	539
Inventories	78	77	87
Other current assets	331	331	331
Current assets	**2,665**	**2,948**	**3,364**
Property, plant & equip.	257	271	290
Investments	532	532	532
Intangibles	3,613	3,707	3,818
Other non-current assets	433	430	427
Total assets	**7,499**	**7,888**	**8,432**
Current liabilities	**1,205**	**1,202**	**1,261**
Total liabilities	**1,537**	**1,535**	**1,593**
Total debt	746	746	746
Shareholders' equity	**5,832**	**6,214**	**6,690**
Minority interests	130	140	150
Total liabilities & equity	**7,499**	**7,888**	**8,432**
Cash Flow (Rmb mn)	**12/19A**	**12/20E**	**12/21E**
EBIT	**584**	**671**	**746**
Net interest	17	4	4
Tax paid	(141)	(171)	(190)
Working capital	9	(11)	(23)
Other cash & non-cash items	132	179	198
Operating cash flow	**602**	**673**	**736**
Capex	(85)	(86)	(97)
Free cash flow to the firm	**517**	**587**	**638**
Investing cash flow	**(293)**	**(299)**	**(340)**
Equity raised	0	0	0
Dividends paid	(78)	(95)	(106)
Financing cash flow	**(103)**	**(99)**	**(102)**
Total cash flow	**205**	**275**	**294**
Adjustments	0	0	0
Net change in cash	**205**	**275**	**294**
Per share	**12/19A**	**12/20E**	**12/21E**
Shares (wtd avg.) (mn)	1,297	1,297	1,297
EPS (Credit Suisse) (Rmb)	**0.30**	**0.37**	**0.41**
DPS (Rmb)	0.00	0.00	0.00
Operating CFPS (Rmb)	0.46	0.52	0.57
Earnings	**12/19A**	**12/20E**	**12/21E**
Growth (%)			
Sales revenue	2.7	1.7	13.0
EBIT	(3.7)	14.9	11.2
EPS	(9.3)	22.1	11.4
Margins (%)			
EBITDA	35.9	40.1	39.4
EBIT	27.6	31.2	30.7
Valuation (x)	**12/19A**	**12/20E**	**12/21E**
P/E	16.6	13.6	12.2
P/B	1.11	1.04	0.97
Dividend yield (%)	0.0	0.0	0.0
EV/sales	2.6	2.4	2.0
EV/EBITDA	7.2	6.0	5.0
EV/EBIT	9.3	7.7	6.5
ROE analysis (%)	**12/19A**	**12/20E**	**12/21E**
ROE	6.8	7.9	8.2
ROIC	8.8	10.0	10.8
Credit ratios	**12/19A**	**12/20E**	**12/21E**
Net debt/equity (%)	(17.5)	(20.7)	(24.3)
Net debt/EBITDA (x)	(1.37)	(1.53)	(1.73)

Source: Company data, Refinitiv, Credit Suisse estimates

Company Background

By the end of the first half 2017, the company had 108 medical institutions in its business coverage and 11,885 beds in operation in various regions across China.

Blue/Grey Sky Scenario



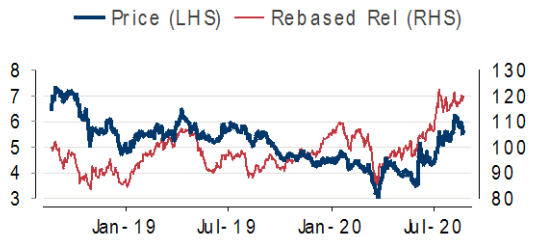
Our Blue Sky Scenario (HK$) **6.00**

Our blue sky scenario value of HK$6.0 is based on the immediate full consolidation of CR hospitals' group purchasing business. Meanwhile, the company is able to maintain the patient volume after the healthcare service fee reform.

Our Grey Sky Scenario (HK$) **3.00**

Our grey sky scenario value of HK$3.0 is based on a lower patient volume due to higher doctor consultation fee, lower-than-expected M&A process, and lower margin of group purchasing business.

Share price performance



The price relative chart measures performance against the MSCI CHINA F IDX which closed at 10,025.38 on 21-Aug-2020
On 21-Aug-2020 the spot exchange rate was HK$7.75/US$1

CREDIT SUISSE

New Frontier Health Corporation

Catering to a differentiated private care experience in healthcare services

NFH

Target price (12M, US$)
10.60

Outperform

Healthcare Facilities

- **Catering to those requiring a differentiated private care experience.** New Frontier Health (NFH) is one of China's leading private hospital groups with a nationwide footprint, broad indication coverage and differentiated specialty focus. We expect that for people seeking for a differentiated private care customer experience when obtaining healthcare services, NFH can provide this as it has a clear distinct market position from public hospitals, strong medical teams due to a competitive pay and working environment, and more patient-oriented services that support patients' willingness to pay.
- **One of the largest private integrated hospital groups in China.** NFH operates 9 hospitals (7 existing and 2 under construction) and 14 clinics—which is one of the largest private integrated hospital groups in China, by revenue. The group offers 30+ specialties—the broadest indication coverage amongst all private hospitals in China. The inclusion of more challenging and hard-to-treat specialties such as cancer care, surgery and emergency medicine demonstrates NFH's strong medical treatment capabilities and fosters its prestigious reputation amongst private hospitals. NFH is highly recognised amongst its private hospital group peers. According to the latest Dingxiangyuan (DXY) 'Top 100 Private Medical Institutions in China' survey conducted in 2018, Beijing United Family Hospital and Shanghai United Family Hospital ranked first and third.
- **Growth drivers.** The main growth drivers for NFH come from improving utilisation of operating hospitals and quick ramping up of expansion hospitals. We expect Beijing Datun hospital to open by end-2020, and Shenzhen hospital to open by 3Q21. While there is a short-term negative impact from COVID-19 (lower non-emergency traffic in hospitals), we think the long-term impact could be positive due to increased public health awareness, government funding and an increased number of patients that are more focused on the customer experience while choosing a healthcare provider.
- **Valuation.** We have an OUTPERFORM rating on NFH with a TP of US$10.60, implying 20.0x 2021E EV/EBITDA based on a DCF model, assuming a 9.41% WACC and 3.0% perpetual growth rate. We like the company because it has a strong hold in tier 1 cities, top-ranked branding, and seasoned full-time medical teams, amongst private hospitals in China. Downside risks include longer impact due to the COVID-19 outbreak.

Price (21 Aug 20, US$)	8.17
Upside/downside (%)	29.7
Mkt cap (US$ mn)	1,073
Enterprise value (Rmb mn)	8,769
Number of shares (mn)	131.36
Free float (%)	90.3
52-wk price range (US$)	10.34-7.19
ADTO-6M (US$ mn)	0.1

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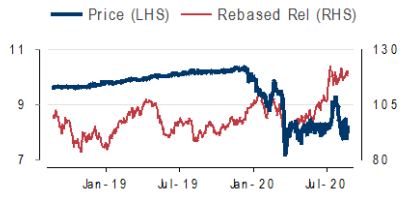
Financial and valuation metrics

Year	12/19A	12/20E	12/21E	12/22E
Revenue (Rmb mn)	2,449.2	2,546.7	3,461.8	3,911.4
EBITDA (Rmb mn)	128.6	297.7	562.0	734.8
EBIT (Rmb mn)	(215.8)	55.7	307.9	468.0
Net profit (Rmb mn)	(386.6)	(266.1)	39.5	195.5
EPS (CS adj.) (Rmb)	(7.55)	(2.03)	0.3	1.49
Chg. from prev. EPS (%)	n.a.	0.0	0.0	0.0
Consensus EPS (Rmb)	n.a.	(2.65)	0.3	1.71
EPS growth (%)	n.m.	n.m.	n.m.	395.1
P/E (x)	n.m.	n.m.	188.0	38.0
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/EBITDA (x)	66.4	29.9	15.9	11.9
P/B (x)	0.35	0.97	0.99	0.99
ROE (%)	(6.8)	(3.4)	0.5	2.6
Net debt/equity (%)	13.2	18.6	19.5	17.1

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



The price relative chart measures performance against the MSCI CHINA F IDX which closed at 10,025.38 on 21/08/20. On 21/08/20 the spot exchange rate was US$1/US$1

Performance	1M	3M	12M
Absolute (%)	(11.7)	(1.6)	(19.9)
Relative (%)	(14.1)	(25.7)	(49.4)

New Frontier Health Corporation (NFH.N / NFH US)

Analyst: **Jason Liu**

Price (21 Aug 2020): **US$8.17**

Target Price: **US$10.60**

Rating: **Outperform**

Income Statement (Rmb mn)	12/19A	12/20E	12/21E	12/22E
Sales revenue	**2,449**	**2,547**	**3,462**	**3,911**
Cost of goods sold	0	0	0	0
EBITDA	**129**	**298**	**562**	**735**
EBIT	**(216)**	**56**	**308**	**468**
Net interest expense/(inc.)	159	277	273	277
Recurring PBT	**(354)**	**(221)**	**35**	**191**
Profit after tax	**(416)**	**(271)**	**35**	**191**
Reported net profit	**(387)**	**(266)**	**39**	**196**
Net profit (Credit Suisse)	**(387)**	**(266)**	**39**	**196**
Balance Sheet (Rmb mn)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Cash & cash equivalents	1,353	585	545	740
Current receivables	215	279	379	429
Inventories	57	71	92	103
Other current assets	482	495	513	522
Current assets	**2,107**	**1,429**	**1,530**	**1,794**
Property, plant & equip.	1,963	1,899	1,777	1,616
Investments	0	0	0	0
Intangibles	8,641	8,518	8,401	8,289
Other non-current assets	1,938	1,938	1,938	1,938
Total assets	**14,650**	**13,784**	**13,646**	**13,638**
Current liabilities	**1,762**	**1,369**	**1,401**	**1,417**
Total liabilities	**6,243**	**5,850**	**5,882**	**5,898**
Total debt	2,461	2,061	2,061	2,061
Shareholders' equity	**8,165**	**7,693**	**7,518**	**7,488**
Minority interests	236	241	246	251
Total liabilities & equity	**14,650**	**13,784**	**13,646**	**13,638**
Cash Flow (Rmb mn)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
EBIT	**(216)**	**56**	**308**	**468**
Net interest	159	127	123	127
Tax paid	(62)	(50)	0	0
Working capital	163	(83)	(108)	(53)
Other cash & non-cash items	255	170	196	215
Operating cash flow	**299**	**220**	**519**	**757**
Capex	(380)	(255)	(225)	(215)
Free cash flow to the firm	**(81)**	**(35)**	**294**	**542**
Investing cash flow	**(387)**	**(255)**	**(225)**	**(215)**
Equity raised	0	0	0	0
Dividends paid	0	0	0	0
Financing cash flow	**(200)**	**(527)**	**(123)**	**(127)**
Total cash flow	**(288)**	**(562)**	**171**	**415**
Adjustments	1	(6)	0	0
Net change in cash	**(287)**	**(569)**	**171**	**415**
Per share	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Shares (wtd avg.) (mn)	51	131	131	131
EPS (Credit Suisse) (Rmb)	**(7.55)**	**(2.03)**	**0.30**	**1.49**
DPS (Rmb)	0.00	0.00	0.00	0.00
Operating CFPS (Rmb)	5.84	1.67	3.95	5.77
Earnings	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Growth (%)				
Sales revenue	19.0	4.0	35.9	13.0
EBIT	(182.8)	125.8	453.0	52.0
EPS	(42.0)	73.2	114.8	395.1
Margins (%)				
EBITDA	5.3	11.7	16.2	18.8
EBIT	(8.8)	2.2	8.9	12.0
Valuation (x)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
P/E	(7.5)	(27.9)	188.0	38.0
P/B	0.35	0.97	0.99	0.99
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/sales	3.5	3.5	2.6	2.2
EV/EBITDA	66.4	29.9	15.9	11.9
EV/EBIT	(39.5)	159.9	29.0	18.7
ROE analysis (%)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
ROE	(6.8)	(3.4)	0.5	2.6
ROIC	(4.0)	0.7	3.3	5.1
Credit ratios	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Net debt/equity (%)	13.2	18.6	19.5	17.1
Net debt/EBITDA (x)	8.62	4.96	2.70	1.80

Source: Company data, Refinitiv, Credit Suisse estimates

Company Background

New Frontier Health is a leading private hospital service provider with a foothold in all four tier 1 cities in China, with 600+ full-time physician staff and 1000+ multi-site practice consultants.

Blue/Grey Sky Scenario

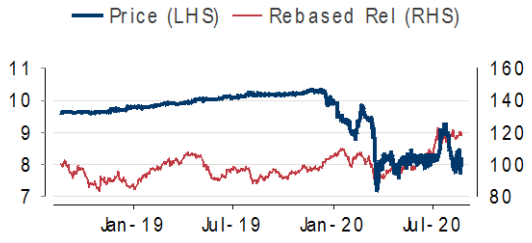
Our Blue Sky Scenario (US$) **13.37**

Our blue sky scenario valuation of US$13.37 is based on the following assumptions: (1) increased bed utilisation rates across operating assets and expansion assets; (2) larger increase in revenue per inpatient day in operating and expansion assets; and (3) bed number increase in expansion assets.

Our Grey Sky Scenario (US$) **7.00**

Our grey sky scenario valuation of US$7.00 is based on the following assumptions: (1) slight increase in bed utilisation rates across operating assets and expansion assets; (2) steady increase in revenue per inpatient day in operating and expansion assets; and (3) no major increase in bed number in expansion assets.

Share price performance



The price relative chart measures performance against the MSCI CHINA F IDX which closed at 10,025.38 on 21-Aug-2020

On 21-Aug-2020 the spot exchange rate was US$1/US$1

CREDIT SUISSE

Philips

Mid-term self-help potential but with capital allocation ambitions also becoming key

PHG.AS

Target price (12M, €)
41.00

Neutral

Medical Supplies & Devices

- **Philips' exposure to China.** Overall, at group level, Philips currently has 14% of 2019 revenues from China. Its strongest market positions are in Patient Monitors relative to GE and Siemens Healthineers (SHL), while in MRI and CT scanners it is the #3 player, after GE and SHL, in China. We see two attractions of Philips' portfolio in China, which are: **(1)** highest exposure to monitors, which will likely benefit from increased additions of ICU beds due to ageing populations and fears of a second COVID-19 wave; and **(2)** Philips' undertaking a product portfolio refresh at the start of 2018 which has translated into double-digit growth for Equipment orders in 2019 in China, and Philips making modest market share gains globally. From here, we expect China to remain a key growth driver due to a low MRI and CT scanner penetration relative to Europe and the US.
- **Philips remains a medium-term restructuring story.** At the CMD in November 2020, Philips will outline its future margin ambitions from the current 2020E levels of ~13% EBITA margins. We believe in the longer-term, Philips aims to be a mid- to high-teens margin company, and the key driver of this is: **(1)** continued improvement in Imaging margins (CT and MRI) where there is still a ~1000 bp Imaging margin gap with market leader Healthineers; **(2)** Personal Health volumes recovering, and also disposing of Domestic Appliances, which we estimate will add ~350 bp to Personal Health margins; and **(3)** Philips' Image Guided Therapy business developing further, and a natural uplift of the device business margins that have largely been built through M&A (Volcano and Spectranetics).
- **Valuation, catalysts and risks.** Philips trades on 14.7x 2022 EV/EBITA which we believe looks broadly fair value when compared with SHL's 16.5x 2022 EV/EBITA multiple in our Varian deal scenario. Catalysts are the 3Q20 results on 19 October, and we look for any comments on M&A ambitions once Domestic Appliances is separated. Risks include weakening consumer confidence and cancellation of ventilator orders.

Price (21 Aug 20, €)	42.49
Market Cap (€ m)	37,875.8
Enterprise value (€ m)	41,591.2

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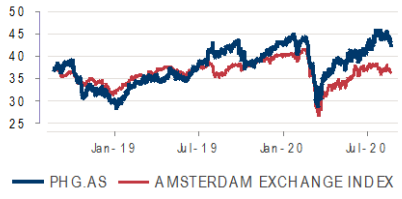
Financial and valuation metrics

Year	12/19A	12/20E	12/21E	12/22E
Revenue (€ m)	19,482.0	19,538.1	19,878.0	20,525.1
EBITDA (€ m)	3,965.0	3,667.0	3,962.3	4,237.8
Adjusted net income (€ m)	1,763.45	1,676.40	1,916.28	2,104.72
CS EPS (adj.) (€)	1.93	1.84	2.08	2.27
Prev. EPS (€)	-	-	-	-
ROIC (%)	11.5	11.3	12.6	13.7
P/E (adj.) (x)	22.0	23.1	20.4	18.7
P/E rel. (%)	110.9	87.4	106.8	118.9
EV/EBITDA (x)	10.6	11.3	10.2	9.3
Dividend (12/20E, €)	0.90	Net debt/equity (12/20E,%)		28.9
Dividend yield (12/20E,%)	2.1	Net debt (12/20E, € m)		3,715.3
BV/share (12/20E, €)	14.1	IC (12/20E, € m)		16,580.7
Current WACC (%)		EV/IC (12/20E, (x)		2.5
Free float (%)	99.7	Number of shares (m)		891.3

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



The price relative chart measures performance against the AMSTERDAM EXCHANGE INDEX which closed at 551.4 on 21/08/20. On 21/08/20 the spot exchange rate was €1/Eu 1.- Eu.85/US$1

Performance	1M	3M	12M
Absolute (%)	-6.9	6.4	3.9
Relative (%)	-2.5	1.3	2.2

Philips (PHG.AS)

Price (21 Aug 2020): **€42.495** Target Price: **41.00**

Analyst: **Max Yates**

Rating: **Neutral**

Income statement (€ m)	12/19A	12/20E	12/21E	12/22E
Revenue	19,482	19,538	19,878	20,525
EBITDA	**3,965**	**3,667**	**3,962**	**4,238**
Depr. & amort.	(1,402)	(1,133)	(1,153)	(1,190)
EBIT	**2,466**	**2,436**	**2,712**	**2,950**
Net interest exp.	(116)	(200)	(160)	(150)
Associates	-	-	-	-
PBT	**2,351**	**2,237**	**2,553**	**2,801**
Income taxes	(337)	(343)	(464)	(545)
Profit after tax	**2,014**	**1,894**	**2,089**	**2,256**
Minorities	(23)	(15)	-0	-0
Preferred dividends	-	-	-	-
Associates & other	(227)	(203)	(173)	(151)
Net profit	**1,763**	**1,676**	**1,916**	**2,105**
Other NPAT adjustments	(594)	(551)	(471)	(402)
Reported net income	**1,169**	**1,125**	**1,445**	**1,702**
Cash flow (€ m)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
EBIT	2,466	2,436	2,712	2,950
Net interest	(116)	(200)	(160)	(150)
Cash taxes paid	-	-	-	-
Change in working capital	(819)	(90)	7	(173)
Other cash and non-cash items	500	22	46	93
Cash flow from operations	**2,031**	**2,169**	**2,605**	**2,719**
CAPEX	(518)	(528)	(537)	(554)
Free cash flow to the firm	**1,513**	**1,641**	**2,068**	**2,165**
Acquisitions	(255)	0	0	0
Divestments	181	0	0	0
Other investment/(outflows)	(11)	(449)	(457)	(472)
Cash flow from investments	**(603)**	**(977)**	**(994)**	**(1,026)**
Net share issue/(repurchase)	(1,318)	(885)	0	0
Dividends paid	(455)	(0)	(511)	(610)
Issuance (retirement) of debt	109	0	0	0
Other financing	0	0	0	0
Cash flow from financing	**(1,664)**	**(885)**	**(511)**	**(610)**
Changes in net cash/debt	(889)	307	1,100	1,084
Net debt at start	3,133	4,022	3,715	2,616
Change in net debt	**889**	**(307)**	**(1,100)**	**(1,084)**
Net debt at end	4,022	3,715	2,616	1,532
Balance sheet (€ m)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Assets				
Total current assets	**9,439**	**9,876**	**11,006**	**12,334**
Total assets	**26,983**	**27,264**	**28,235**	**29,398**
Liabilities				
Total current liabilities	**6,945**	**6,986**	**7,023**	**7,093**
Total liabilities	**14,358**	**14,399**	**14,436**	**14,506**
Total equity and liabilities	**26,983**	**27,264**	**28,235**	**29,398**
Per share	**12/19A**	**12/20E**	**12/21E**	**12/22E**
No. of shares (wtd avg.) (mn)	913	911	919	927
CS EPS (adj.) (€)	**1.93**	**1.84**	**2.08**	**2.27**
Prev. EPS (€)	**-**	**-**	**-**	**-**
Dividend (€)	**0.85**	**0.90**	**1.00**	**1.10**
Free cash flow per share (€)	1.66	1.80	2.25	2.34
Key ratios and valuation	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Growth/Margin (%)				
Sales growth (%)	7.5	0.3	1.7	3.3
EBIT growth (%)	10.8	(1.2)	11.3	8.8
Net income growth (%)	13.8	(4.9)	14.3	9.8
EPS growth (%)	16.7	(4.8)	13.3	8.9
EBITDA margin (%)	20.4	18.8	19.9	20.6
EBIT margin (%)	12.7	12.5	13.6	14.4
Pre-tax profit margin (%)	12.1	11.5	12.8	13.6
Net income margin (%)	9.1	8.6	9.6	10.3
Valuation	**12/19A**	**12/20E**	**12/21E**	**12/22E**
EV/Sales (x)	2.2	2.1	2.0	1.9
EV/EBITDA (x)	10.6	11.3	10.2	9.3
EV/EBIT (x)	17.0	17.1	14.9	13.4
Dividend yield (%)	2.00	2.12	2.35	2.59
P/E (x)	22.0	23.1	20.4	18.7
Credit ratios (%)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Net debt/equity (%)	31.9	28.9	19.0	10.3
Net debt to EBITDA (x)	1.0	1.0	0.7	0.4
Interest coverage ratio (x)	21.3	12.2	16.9	19.7

Source: FTI, Company data, Refinitiv, Credit Suisse Securities (EUROPE) LTD. Estimates

Company Background

Philips is a global industrial company headquartered in the Netherlands. Its main markets include Healthcare Equipment and Personal Health products.

Blue/Grey Sky Scenario

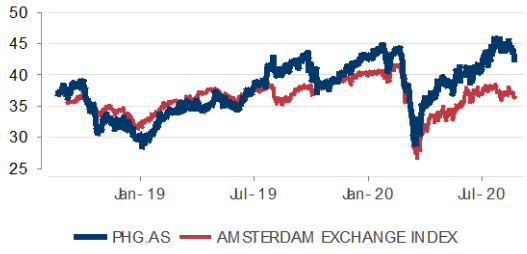
Our Blue Sky Scenario (€) **52.00**

Our blue sky scenario assumes Philips hits its 2020 margin target of 15% one year late in 2021E (vs our base case of 14.3%). We then apply a 17x 2021E EV/EBITA multiple (in line with our Healthineers target multiple).

Our Grey Sky Scenario (€) **34.00**

Our grey sky scenario assumes Philips Personal Health division does not recover in 2021 and remains at 2020 levels. We assume our other Diagnostics and Treatment and Connected Care forecasts are unchanged. We apply 13x 2021 EV/EBITA (in line with Philips' five-year average) and discount valuation back one year.

Share price performance



The price relative chart measures performance against the AMSTERDAM EXCHANGE INDEX which closed at 551.4 on 21/08/20
On 21/08/20 the spot exchange rate was €1/Eu 1.- Eu.85/US$1

CREDIT SUISSE

Siemens Healthineers

A leader in the attractive Imaging Equipment market. Varian deal cements this position

SHLG.DE

Healthcare Technology

Target price (12M, €)
44.00

Outperform

- **Healthineers in China.** China is 13% of SHL's 2019 sales, and grew organically by 9%, which we see as keeping up with overall market growth rates. Reassuringly, in SHL's recent 3Q20 results it highlighted that order growth in China had recovered to double-digit levels suggesting that, in Imaging, it was out-growing Philips. SHL also sees itself as having a leading market share in Imaging in Asia-Pacific. In our 18 March report we outlined the future runway for growth in China MRI scanners with China currently having 5 MRI scanners per million people, compared to 20 in Western Europe and 37 in the US. This suggests China has a runway for 5% annual growth to 2050, and these penetration rates would only close the gap with Europe but still be some way below US levels.
- **Scenario around the Varian deal.** We run a scenario where Healthineers raises €6.1 bn of equity for the announced Varian deal at €37 per share. Once we include the new debt, and €90 mn of cost synergies, we think at the current share price this will leave the stock trading on 16.5x 2022E EV/EBITA, a 12% premium to Philips' current 2022E multiple. We do not see this as overly demanding, as we see scope for further synergies to enhance EBITA growth for SHL in 2023-25, which should secure an attractive future growth profile.
- **Valuation.** We see a post-Varian deal multiple of 16.5x 2022 EV/EBITA for SHL. We see the premium multiple as justified versus Philips and other Equipment peers driven by SHL's superior growth track record and resilience (no negative organic growth in 2007-20).

Price (21 Aug 20, €)	39.22
Market Cap (€ m)	39,220.0
Enterprise value (€ m)	37,450.7

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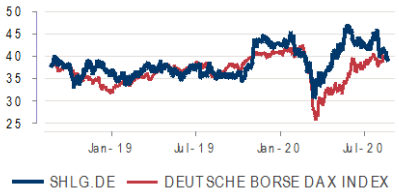
Financial and valuation metrics

Year	9/19A	9/20E	9/21E	9/22E
Revenue (€ m)	14,518.0	14,645.4	15,272.3	16,155.1
EBITDA (€ m)	2,978.0	2,801.5	3,148.3	3,449.0
Adjusted net income (€ m)	1,714.32	1,633.62	1,856.40	2,054.41
CS EPS (adj.) (€)	1.70	1.61	1.84	2.04
Prev. EPS (€)	-	-	-	-
ROIC (%)	20.6	20.1	22.0	23.5
P/E (adj.) (x)	23.1	24.3	21.3	19.3
P/E rel. (%)	143.1	120.9	146.5	155.5
EV/EBITDA (x)	12.9	13.4	11.7	10.5
Dividend (09/20E, €)	0.78	Net debt/equity (09/20E,%)		-16.9
Dividend yield (09/20E,%)	2.0	Net debt (09/20E, € m)		-1,769.3
BV/share (09/20E, €)	10.4	IC (09/20E, € m)		8,673.7
Current WACC (%)		EV/IC (09/20E, (x)		4.3
Free float (%)	14.9	Number of shares (m)		1,000.0

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



The price relative chart measures performance against the DEUTSCHE BORSE DAX INDEX which closed at 12764.8 on 21/08/20. On 21/08/20 the spot exchange rate was €1/Eu 1.- Eu.85/US$1

Performance	1M	3M	12M
Absolute (%)	-12.7	-14.4	10.9
Relative (%)	-10.2	-29.7	1.0

Siemens Healthineers (SHLG.DE)

Price (21 Aug 2020): **€39.22** Target Price: **44.00**

Analyst: **Max Yates**

Rating: **Outperform**

Income statement (€ m)	9/19A	9/20E	9/21E	9/22E
Revenue	14,518	14,645	15,272	16,155
EBITDA	**2,978**	**2,801**	**3,148**	**3,449**
Depr. & amort.	(490)	(483)	(530)	(556)
EBIT	**2,488**	**2,319**	**2,618**	**2,893**
Net interest exp.	(107)	(50)	(40)	(40)
Associates	-	-	-	-
PBT	**2,381**	**2,269**	**2,578**	**2,853**
Income taxes	(607)	(560)	(659)	(736)
Profit after tax	**1,774**	**1,709**	**1,920**	**2,118**
Minorities	-	-	-	-
Preferred dividends	-	-	-	-
Associates & other	(60)	(76)	(63)	(63)
Net profit	**1,714**	**1,634**	**1,856**	**2,054**
Other NPAT adjustments	0	0	0	0
Reported net income	**1,714**	**1,634**	**1,856**	**2,054**
Cash flow (€ m)	**9/19A**	**9/20E**	**9/21E**	**9/22E**
EBIT	2,488	2,319	2,618	2,893
Net interest	85	50	40	40
Cash taxes paid	(493)	(635)	(722)	(799)
Change in working capital	(341)	(2)	5	(118)
Other cash and non-cash items	(122)	69	158	184
Cash flow from operations	**1,617**	**1,801**	**2,100**	**2,200**
CAPEX	(585)	(513)	(535)	(565)
Free cash flow to the firm	**1,032**	**1,289**	**1,566**	**1,635**
Acquisitions	-	-	-	-
Divestments	(63)	(1,336)	0	0
Other investment/(outflows)	0	0	0	0
Cash flow from investments	**(648)**	**(1,849)**	**(535)**	**(565)**
Net share issue/(repurchase)	-	-	-	-
Dividends paid	(714)	(777)	(847)	(946)
Issuance (retirement) of debt	52	0	0	0
Other financing	59	1,816	(40)	(40)
Cash flow from financing	**(603)**	**1,039**	**(887)**	**(986)**
Changes in net cash/debt	333	991	679	649
Net debt at start	(445)	(778)	(1,769)	(2,448)
Change in net debt	**(333)**	**(991)**	**(679)**	**(649)**
Net debt at end	(778)	(1,769)	(2,448)	(3,097)
Balance sheet (€ m)	**9/19A**	**9/20E**	**9/21E**	**9/22E**
Assets				
Total current assets	**7,779**	**8,687**	**9,417**	**10,263**
Total assets	**21,429**	**23,872**	**24,775**	**25,801**
Liabilities				
Total current liabilities	**5,605**	**5,520**	**5,577**	**5,656**
Total liabilities	**11,648**	**13,429**	**13,486**	**13,565**
Total equity and liabilities	**21,429**	**23,872**	**24,775**	**25,801**
Per share	**9/19A**	**9/20E**	**9/21E**	**9/22E**
No. of shares (wtd avg.) (mn)	1,000	1,000	1,000	1,000
CS EPS (adj.) (€)	**1.70**	**1.61**	**1.84**	**2.04**
Prev. EPS (€)	**-**	**-**	**-**	**-**
Dividend (€)	**0.80**	**0.78**	**0.85**	**0.95**
Free cash flow per share (€)	1.03	1.29	1.57	1.64
Key ratios and valuation	**9/19A**	**9/20E**	**9/21E**	**9/22E**
Growth/Margin (%)				
Sales growth (%)	8.1	0.9	4.3	5.8
EBIT growth (%)	8.3	(6.8)	12.9	10.5
Net income growth (%)	11.6	(4.7)	13.6	10.7
EPS growth (%)	11.8	(4.8)	13.8	10.8
EBITDA margin (%)	20.5	19.1	20.6	21.3
EBIT margin (%)	17.1	15.8	17.1	17.9
Pre-tax profit margin (%)	16.4	15.5	16.9	17.7
Net income margin (%)	11.8	11.2	12.2	12.7
Valuation	**9/19A**	**9/20E**	**9/21E**	**9/22E**
EV/Sales (x)	2.6	2.6	2.4	2.2
EV/EBITDA (x)	12.9	13.4	11.7	10.5
EV/EBIT (x)	15.5	16.2	14.0	12.5
Dividend yield (%)	2.04	1.98	2.16	2.41
P/E (x)	23.1	24.3	21.3	19.3
Credit ratios (%)	**9/19A**	**9/20E**	**9/21E**	**9/22E**
Net debt/equity (%)	(8.0)	(16.9)	(21.7)	(25.3)
Net debt to EBITDA (x)	(0.3)	(0.6)	(0.8)	(0.9)
Interest coverage ratio (x)	23.3	46.4	65.5	72.3

Source: FTI, Company data, Refinitiv, Credit Suisse Securities (EUROPE) LTD. Estimates

Company Background

Siemens Healthineers is a global healthcare equipment provider and also offers enterprise and digital health services. Healthineers is a global leader in Imaging Equipment and a number two player in Laboratory Diagnostics.

Blue/Grey Sky Scenario

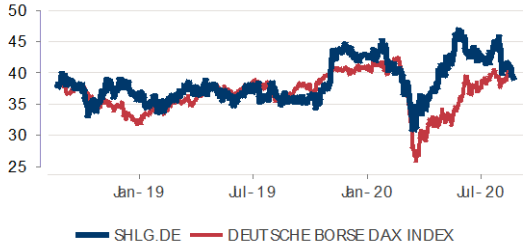
Our Blue Sky Scenario (€) **50.00**

We assume Healthineers hits the mid-point of Imaging and Advanced Therapies margin ranges and 14% in Diagnostics in 2024. We apply a 20% premium multiple (19x EV/EBITA) to where Philips trades and discount valuation back three years.

Our Grey Sky Scenario (€) **31.00**

We assume Healthineers grows in line with its historic annual growth rate (3%) and 2024 margins for Imaging and Advanced Therapies are at the low end of targeted ranges and Diagnostics at 10%. We apply 15x EV/EBITA and discount valuation back three years.

Share price performance



The price relative chart measures performance against the DEUTSCHE BORSE DAX INDEX which closed at 12764.8 on 21/08/20

On 21/08/20 the spot exchange rate was €1/Eu 1.- Eu.85/US$1

CREDIT SUISSE

Fresenius Medical Care AG & Co.

China business

FMEG.DE

Target price (12M, €)
81.00
Neutral

Healthcare Services

- **Leading market position in dialysis care.** Fresenius Medical Care focuses on improving the quality of care in life-sustaining dialysis treatment to patients who are suffering from ESRD. The company provided products and services to more than 4,000 dialysis centres and renal hospitals in China by 2018.
- **Major acquisitions.** In December 2018, the company announced major investments into the Chinese market. The company acquired a 70% share of Guangzhou KangNiDaiSi Medical Investments; 55% stakes in Henan Aishen Hospital Management and Aishen Beijing Hospital Management; and a 60% share of Daqing Kangda Dialysis Center in Heilongjiang province. The acquisitions followed the purchase of Yunnan Kunming Wuhua Healthcare Hospital in April 2017, and the acquisition of a 70% share of Sichuan Hejiang Kangcheng Renal Hospital in June 2018 as well as the acquisition of a 70% share of Sichuan Ziyang Zhongxin Hospital, both located in the Sichuan province.
- **Market development strategy.** Fresenius Medical Care is focusing on investing in tier-2 and tier-3 cities—large & medium-sized cities with a population between 150k and 15 mn, like Kunming or Quanzhou, as the company already has a good position in larger cities.
- **Local R&D focus.** Fresenius Medical Care is also focusing on expanding its research and development activities. In 2015, it established a proprietary "China Design Center" in Shanghai, which supplements the development work of the production site in Changshu that the company acquired in 2007 and is in close contact with the product development team in Schweinfurt. In Changshu, the company produces haemodialysis bloodline sets and AV fistula sets as well as haemodialysers and peritoneal dialysis solutions.
- **Specific products launched.** In 2019, the company announced the launch of its 4008A dialysis machine in China. The product was exclusively designed for the needs in emerging markets. Globally, more than half of all dialysis machines are manufactured by Fresenius Medical Care.
- **Major manufacturing setup.** Fresenius Medical Care's China strategy also includes setting up new production sites. A plant in Beijing that manufactures dialysis concentrates began operations in August 2018.

Price (21 Aug 20, €)	72.90
Market Cap (€ m)	22,421.3
Enterprise value (€ m)	35,353.5

Research Analysts

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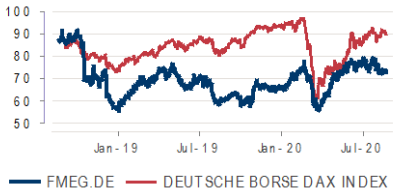
Financial and valuation metrics

Year	12/19A	12/20E	12/21E	12/22E
Revenue (€ m)	17,477.0	18,248.7	19,385.6	20,661.2
EBITDA (€ m)	3,863.5	4,201.1	4,477.3	4,746.9
Adjusted net income (€ m)	1,337.40	1,464.07	1,562.52	1,689.76
CS EPS (adj.) (€)	4.42	5.00	5.32	5.74
Prev. EPS (€)	-	-	-	-
ROIC (%)	6.8	7.2	7.4	7.7
P/E (adj.) (x)	16.5	14.6	13.7	12.7
P/E rel. (%)	102.2	72.6	94.0	102.4
EV/EBITDA (x)	9.1	8.4	7.8	7.3
Dividend (12/20E, €)	1.28	Net debt/equity (12/20E,%)		91.7
Dividend yield (12/20E,%)	1.6	Net debt (12/20E, € m)		12,932.2
BV/share (12/20E, €)	42.8	IC (12/20E, € m)		27,034.7
Current WACC (%)	6.9	EV/IC (12/20E, (x)		1.3
Free float (%)	69.0	Number of shares (m)		308.6

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



The price relative chart measures performance against the DEUTSCHE BORSE DAX INDEX which closed at 12764.8 on 21/08/20. On 21/08/20 the spot exchange rate was €1/Eu 1.- Eu.85/US$1

Performance	1M	3M	12M
Absolute (%)	-7.7	-2.7	20.3
Relative (%)	-5.1	-18.0	10.4

Fresenius Medical Care AG & Co. (FMEG.DE)

Analyst: **Christoph Gretler**

Price (21 Aug 2020): **€72.9**

Target Price: **81.00**

Rating: **Neutral**

Income statement (€ m)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Revenue	17,477	18,249	19,386	20,661
EBITDA	**3,863**	**4,201**	**4,477**	**4,747**
Depr. & amort.	(1,594)	(1,641)	(1,731)	(1,807)
EBIT	**2,269**	**2,560**	**2,746**	**2,940**
Net interest exp.	(429)	(394)	(395)	(391)
Associates	74	68	102	153
PBT	**1,840**	**2,166**	**2,352**	**2,549**
Income taxes	(400)	(516)	(564)	(612)
Profit after tax	**1,440**	**1,650**	**1,787**	**1,938**
Minorities	(238)	(302)	(341)	(364)
Preferred dividends	-	-	-	-
Associates & other	135	117	116	116
Net profit	**1,337**	**1,464**	**1,563**	**1,690**
Other NPAT adjustments	(135)	(117)	(116)	(116)
Reported net income	**1,202**	**1,348**	**1,446**	**1,573**
Cash flow (€ m)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
EBIT	2,269	2,560	2,746	2,940
Net interest	(429)	(394)	(395)	(391)
Cash taxes paid	-	-	-	-
Change in working capital	(393)	(178)	(137)	(95)
Other cash and non-cash items	1,119	1,301	1,342	1,371
Cash flow from operations	**2,567**	**3,289**	**3,557**	**3,825**
CAPEX	(1,125)	(1,096)	(1,066)	(1,136)
Free cash flow to the firm	**(494)**	**1,719**	**1,960**	**2,113**
Acquisitions	(2,233)	(497)	(547)	(582)
Divestments	-	-	-	-
Other investment/(outflows)	71	(69)	(73)	(77)
Cash flow from investments	**(3,286)**	**(1,662)**	**(1,686)**	**(1,795)**
Net share issue/(repurchase)	-	-	-	-
Dividends paid	(355)	(774)	(388)	(404)
Issuance (retirement) of debt	(345)	(1,151)	(815)	(814)
Other financing	281	90	(77)	44
Cash flow from financing	**(419)**	**(1,835)**	**(1,280)**	**(1,174)**
Changes in net cash/debt	(7,374)	(158)	287	533
Net debt at start	5,401	12,775	12,932	12,645
Change in net debt	**7,374**	**158**	**(287)**	**(533)**
Net debt at end	12,775	12,932	12,645	12,113
Balance sheet (€ m)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Assets				
Total current assets	**7,165**	**7,307**	**8,282**	**9,512**
Total assets	**32,935**	**34,023**	**35,896**	**38,076**
Liabilities				
Total current liabilities	**7,007**	**6,953**	**7,187**	**7,451**
Total liabilities	**19,707**	**19,920**	**20,394**	**21,040**
Total equity and liabilities	**32,935**	**34,023**	**35,896**	**38,076**
Per share	**12/19A**	**12/20E**	**12/21E**	**12/22E**
No. of shares (wtd avg.) (mn)	303	293	293	294
CS EPS (adj.) (€)	**4.42**	**5.00**	**5.32**	**5.74**
Prev. EPS (€)	**-**	**-**	**-**	**-**
Dividend (SFr)	**1.11**	**1.19**	**1.23**	**1.29**
Free cash flow per share (€)	(1.63)	5.87	6.68	7.18
Key ratios and valuation	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Growth/Margin (%)				
Sales growth (%)	5.6	4.4	6.2	6.6
EBIT growth (%)	(25.3)	12.8	7.3	7.0
Net income growth (%)	(6.5)	9.5	6.7	8.1
EPS growth (%)	(5.3)	13.2	6.5	7.9
EBITDA margin (%)	22.1	23.0	23.1	23.0
EBIT margin (%)	13.0	14.0	14.2	14.2
Pre-tax profit margin (%)	10.5	11.9	12.1	12.3
Net income margin (%)	7.7	8.0	8.1	8.2
Valuation	**12/19A**	**12/20E**	**12/21E**	**12/22E**
EV/Sales (x)	2.0	1.9	1.8	1.7
EV/EBITDA (x)	9.1	8.4	7.8	7.3
EV/EBIT (x)	15.5	13.8	12.8	11.7
Dividend yield (%)	1.52	1.63	1.69	1.76
P/E (x)	16.5	14.6	13.7	12.7
Credit ratios (%)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Net debt/equity (%)	96.6	91.7	81.6	71.1
Net debt to EBITDA (x)	3.3	3.1	2.8	2.6
Interest coverage ratio (x)	5.3	6.5	7.0	7.5

Source: FTI, Company data, Refinitiv, Credit Suisse Securities (EUROPE) LTD. Estimates

Company Background

Fresenius Medical Care AG & Co. KGaA is a kidney dialysis company, operating in both the field of dialysis products and the field of dialysis services. The company operates in four business segments: North America, EMEA, Asia Pacific and Latin America.

Blue/Grey Sky Scenario

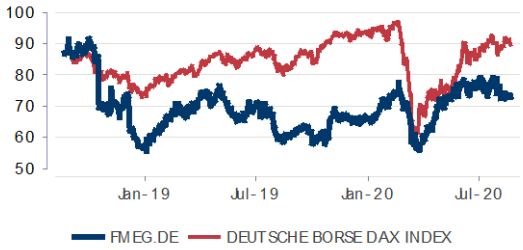
Our Blue Sky Scenario (€) **97.00**

In our blue sky scenario, we assume that Centers for Medicare and Medicaid Services (CMS) would allow for dialysis care reimbursement for Medicare patients in the US to increase by 2.5% p.a., in line with market basket inflation, going forward

Our Grey Sky Scenario (€) **53.00**

In our grey sky scenario, we assume that CMS would not allow for any dialysis care reimbursement increase for Medicare patients in the US and thus rates would stay flat going forward.

Share price performance



The price relative chart measures performance against the DEUTSCHE BORSE DAX INDEX which closed at 12764.8 on 21/08/20
On 21/08/20 the spot exchange rate was €1/Eu 1.- Eu.85/US$1

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China Vanke H

First mover in senior-housing development

2202.HK

Target price (12M, HK$)
27.40

Neutral

Real Estate Management & Development

- **Vanke could be a major beneficiary.** While we think the scale of China's new home sales has peaked in 2019 (i.e. down 4.7% p.a. over 2019-22E in terms of sales volume), we do not envisage a drastic decline over the next decade, even with the growing ageing population. We believe the market consolidation, with large developers to become larger, will continue; and China Vanke, with its sales ranking among the top 3 in China, will be one of the major beneficiaries.
- **Scale of senior home projects ranked top among developers.** On senior home development/operation, China Vanke initiated the business as early as 2009 and had developed 170 projects (including 50 projects with 24-hour senior caring services) across 15 cities as at end-2017. Five major product lines were introduced. While the profit /valuation contribution to Vanke is insignificant, the scale of its senior home projects is ranked top among developers. As the policy is to turn more supportive with more exit channels, we believe there is more growth potential for China Vanke on its first-mover advantage.
- **Sales growth momentum continues to improve.** Vanke's sales growth momentum continued to improve since end-Apr 2020, with sales up 22% YoY to Rmb59 bn in Jul 2020. This was mainly driven by more new launches (+17% YoY to Rmb60 bn). The land acquisition pace also accelerated and the investment accounted for 54% of its sales value in Jul-2020 (vs 22% over 7M20). We expect management to turn more proactive on expansion with its full-year land acquisition budget set at 35% of the sales in 2020.
- **Valuation.** Vanke-H's share price underperformed its peers YTD with its valuation (45% NAV discount and 5.0x FY21 P/E) trading at the low end among the large-cap names. This was mainly due to: (1) investors' concerns on its sales growth prospects, given its existing tight saleable resources and management's conservative land acquisition strategy in 1H20; and (2) slower-than-expected monetisation for its non-development business. The improving sales and management's more proactive land acquisition in Jul-2020 were positive. We await clearer guidance on the expansion strategy, and the potential spin-off plans, from management during the results briefing in late August. Maintain Neutral.

Price (21 Aug 20, HK$)	25.70
Upside/downside (%)	6.6
Mkt cap (HK$/US$ mn)	48,664 / 6,279
Enterprise value (Rmb mn)	139,846
Number of shares (mn)	1,894
Free float (%)	100.0
52-wk price range (HK$)	34.35-23.20
ADTO-6M (US$ mn)	33.9

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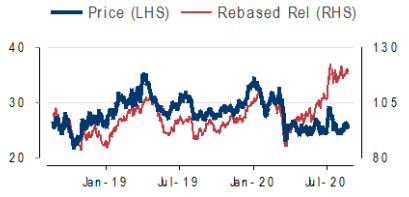
Financial and valuation metrics

Year	12/19A	12/20E	12/21E	12/22E
Revenue (Rmb mn)	367,894	430,297	490,501	540,145
EBITDA (Rmb mn)	108,273	101,034	107,340	115,988
EBIT (Rmb mn)	108,273	101,034	107,340	115,988
Net attributable profit (Rmb mn)	39,094.4	45,265.7	51,832.5	55,649.7
EPS (CS adj.) (Rmb)	3.49	4.01	4.59	4.92
Chg. from prev. EPS (%)	n.a.	0.0	0.0	0.0
Consensus EPS (Rmb)	n.a.	3.92	4.4	4.76
EPS growth (%)	9.7	14.9	14.5	7.4
P/E (x)	6.6	5.7	5.0	4.7
Dividend yield (%)	4.6	5.2	6.0	6.4
EV/EBITDA (x)	1.2	1.4	1.5	1.5
ROE (%)	22.7	22.1	21.5	19.9
Net debt/equity (%)	33.9	31.4	31.3	31.0
NAV per share (Rmb)	46.18	41.55	-	-
Disc./(prem.) to NAV (%)	50.3	44.8	-	-

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



The price relative chart measures performance against the MSCI CHINA F IDX which closed at 10,025.38 on 21/08/20. On 21/08/20 the spot exchange rate was HK$7.75/US$1

Performance	1M	3M	12M
Absolute (%)	0.6	6.0	(9.0)
Relative (%)	(1.9)	(18.1)	(38.5)

China Vanke H (2202.HK / 2202 HK)

Price (21 Aug 2020): **HK$25.70**

Target Price: **HK$27.40**

Analyst: **Jianping Chen**

Rating: **Neutral**

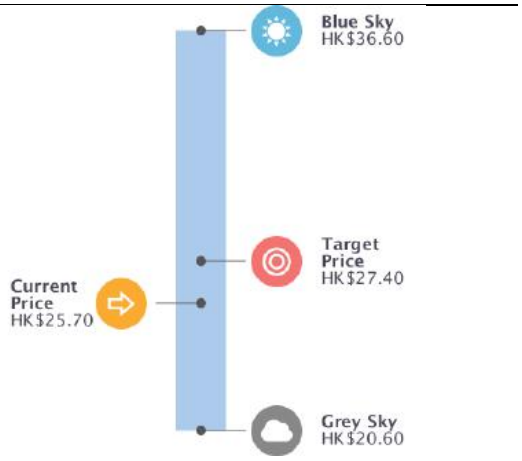
Earnings Drivers	12/19A	12/20E	12/21E	12/22E
Contracted sales (Rmbm)	630,830	650,134	663,053	670,181
Cont. GFA (th sqm)	41,123	38,839	37,850	40,659
Cont. ASP (Rmb/sqm)	15,340	16,739	17,518	16,483
GFA delivered (th sqm)	24,603	26,030	31,372	33,701
Booking ASP (Rmb/sqm)	14,334	16,883	15,912	16,224
Income Statement (Rmb mn)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Sales revenue	**367,894**	**430,297**	**490,501**	**540,145**
Cost of goods sold	235,697	300,354	351,326	389,960
EBITDA	**108,273**	**101,034**	**107,340**	**115,988**
EBIT	**108,273**	**101,034**	**107,340**	**115,988**
Net interest expense/(inc.)	5,725	5,728	6,077	6,521
Recurring PBT	**106,339**	**100,671**	**110,675**	**117,545**
Profit after tax	**55,132**	**57,187**	**67,835**	**73,250**
Revaluations	0	0	0	0
Reported net profit	**38,872**	**45,266**	**51,832**	**55,650**
Net profit (Credit Suisse)	**39,094**	**45,266**	**51,832**	**55,650**
Balance Sheet (Rmb mn)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Cash & cash equivalents	166,195	149,911	143,344	133,908
Current receivables	355,062	355,062	355,062	355,062
Inventories	66,034	59,431	53,488	48,139
Properties under development	835,773	846,213	816,250	743,480
Other current assets	16,000	16,000	16,000	16,000
Current Assets	**1,439,063**	**1,426,617**	**1,384,143**	**1,296,588**
Property, plant & equip.	29,698	36,750	43,803	50,856
Properties under development	0	0	0	0
Investment Properties	94,521	94,521	94,521	94,521
Investment in Associates/JV	130,476	135,841	145,254	153,332
Other non-current assets	35,459	35,459	35,459	35,459
Total assets	**1,730,003**	**1,729,975**	**1,703,967**	**1,631,542**
Current liabilities	**1,272,610**	**1,216,895**	**1,129,404**	**994,215**
Total liabilities	**1,459,424**	**1,414,019**	**1,333,746**	**1,203,608**
Shareholders' equity	**188,058**	**221,513**	**259,777**	**299,889**
Minority interests	82,521	94,442	110,444	128,045
Total liabilities & equity	**1,730,003**	**1,729,975**	**1,703,967**	**1,631,542**
Cash Flow (Rmb mn)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
EBIT	**108,273**	**101,034**	**107,340**	**115,988**
Net interest	0	0	0	0
Tax paid	0	(43,484)	(42,840)	(44,295)
Working capital	37,734	57,603	50,070	53,612
Operating cash flow	**45,687**	**26,063**	**18,381**	**21,079**
Capex	0	0	0	0
Free cash flow to the firm	**45,687**	**26,063**	**18,381**	**21,079**
Investing cash flow	**(28,627)**	**(7,053)**	**(7,053)**	**(7,053)**
Equity raised	17,959	0	0	0
Dividends paid	(46,700)	(26,407)	(28,207)	(30,680)
Financing cash flow	**(33,338)**	**(35,294)**	**(17,896)**	**(23,463)**
Total cash flow	**(16,278)**	**(16,283)**	**(6,567)**	**(9,436)**
Adjustments	349	0	0	0
Net change in cash	**(15,930)**	**(16,283)**	**(6,567)**	**(9,436)**
Per share	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Shares (wtd avg.) (mn)	11,214	11,302	11,302	11,302
EPS (Credit Suisse) (Rmb)	**3.49**	**4.01**	**4.59**	**4.92**
DPS (Rmb)	1.04	1.20	1.37	1.48
BVPS (Rmb)	16.64	19.60	22.98	26.53
NAV per share (Rmb)	46.18	41.55	n.a.	n.a.
Earnings	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Growth (%)				
Sales revenue	23.8	17.0	14.0	10.1
EBIT	24.6	(6.7)	6.2	8.1
EPS	9.7	14.9	14.5	7.4
Margins (%)				
EBITDA	29.4	23.5	21.9	21.5
EBIT	29.4	23.5	21.9	21.5
Valuation (x)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
P/E	6.6	5.7	5.0	4.7
P/B	1.38	1.17	1.00	0.86
Dividend yield (%)	4.6	5.2	6.0	6.4
EV/EBIT	1.2	1.4	1.5	1.5
ROE analysis (%)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
ROE	22.7	22.1	21.5	19.9
ROIC	25.8	20.3	18.2	16.8
Credit ratios	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Net debt/equity (%)	33.9	31.4	31.3	31.0
Net Debt/EBITDA (x)	0.85	0.98	1.08	1.14

Source: Company data, Refinitiv, Credit Suisse estimates

Company Background

China Vanke Co., Ltd. is China's leading property developer with nationwide coverage. Originating in Shenzhen, the company listed its A shares in 1991 and is currently dual-listed on both SZSE and HKSE.

Blue/Grey Sky Scenario



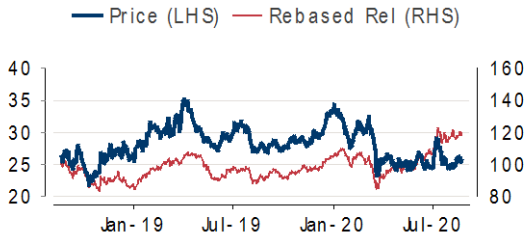
Our Blue Sky Scenario (HK$) **36.60**

Our blue sky scenario valuation of HK$36.6 is based on a 20% discount to our net asset value estimate.

Our Grey Sky Scenario (HK$) **20.60**

Our grey sky scenario valuation of HK$20.6 is based on a 55% discount to our net asset value estimate.

Share price performance



The price relative chart measures performance against the MSCI CHINA F IDX which closed at 10,025.38 on 21-Aug-2020

On 21-Aug-2020 the spot exchange rate was HK$7.75/US$1

CREDIT SUISSE

Ping An

Leverage retirement opportunity with 'finance + tech'

2318.HK

Target price (12M, HK$)
103.00

Outperform

Multi Line Insurance

- **Integrated ecosystem to tap into the retirement opportunity.** Ping An has already established a multi-layer ecosystem that encompasses the fields of insurance, healthcare and smart cities, among others. We believe its experience in insurance and healthcare services would lay a solid foundation to understand the demographic trend, paving the way for future offerings of comprehensive healthcare and retirement solutions to its customers.
- **Near-term headwinds in 1H20.** We anticipate near-term headwinds for Ping An in 1H20, due to COVID-19 disruption and proactive adjustments. Ping An is scheduled to release 1H20 results on 27 Aug. We estimate 25% YoY VNB decline in 1H20, implying 26% decrease in 2Q20. While FYP trend improved sequentially in 2Q (vs 1Q), VNB margin was under pressure, given (1) the high base of 2Q19 (mostly L/T protections in 2Q); and (2) efficiency of offline sales remained low—agency productivity and activity ratio has not recovered to normal levels. With social distancing, agents mostly focus on simple products (low margin) to maintain customer engagement or to acquire new customers, which, hopefully, could pave the way for cross/up-sell in 2H.
- **Long-term quality play.** We highlight Ping An as a quality play, as it has lowest VIF/VNB implied breakeven investment return among peers. This suggests it could better weather uncertainties across cycles (CS sector deep dive on asset and liability). Following proactive adjustments in 2018-20, Ping An gradually moves away from the mass agency recruitment model and selling short-pay-term savings plans. It continues to prioritise agent quality and productivity over total scale, and diversify its products suites to meet customers' demands. While such an adjustment has introduced some near-term volatility, it would benefit the insurer with a more sustainable growth profile in the medium term.
- **Maintain OUTPERFORM,** as we believe the long-term growth prospects are intact. Ping An, as one of the largest insurers in China, will continue to benefit from the structural growing opportunities of underpenetrated insurance in China. We expect sector-leading RoEV to sustain over the medium term. OPAT and VNB trend should sequentially improve in 2H20 and momentum should pick up in 2021.

Price (21 Aug 20, HK$)	84.00
Upside/downside (%)	22.6
Mkt cap (HK$/US$ mn)	1,575,198 / 203,254
Enterprise value (Rmb mn)	1,599,352
Number of shares (mn)	18,280
Free float (%)	63.4
52-wk price range (HK$)	100-70.90
ADTO-6M (US$ mn)	395.4

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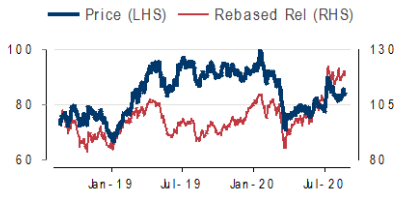
Financial and valuation metrics

Year	12/19A	12/20E	12/21E	12/22E
Life GWP (Rmb mn)	526,811	533,029	591,663	656,745
P&C GWP (Rmb mn)	270,996	294,534	313,679	338,773
Net profit (Rmb mn)	149,407	136,393	162,024	188,779
EPS (CS adj.) (Rmb)	8.41	7.68	9.12	10.62
Chg. from prev. EPS (%)	n.a.	0.0	0.0	0.0
Consensus EPS (Rmb)	n.a.	7.9	9.17	10.62
EPS growth (%)	39.6	(8.7)	18.8	16.5
P/E (x)	8.9	9.8	8.2	7.1
NTA per share (Rmb)	33.36	39.78	46.13	53.78
EV per share (Rmb)	65.67	76.47	89.72	104.79
Dividend yield (%)	2.7	2.9	3.3	3.7
P/B (x)	2.04	1.73	1.51	1.31
ROE (%)	24.3	18.6	19.1	19.3
P&C combined ratio (%)	96.4	97.0	97.3	97.2

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



The price relative chart measures performance against the MSCI CHINA F IDX which closed at 10,025.38 on 21/08/20. On 21/08/20 the spot exchange rate was HK$7.75/US$1

Performance	1M	3M	12M
Absolute (%)	(1.2)	10.7	(7.2)
Relative (%)	(3.6)	(13.5)	(36.6)

Ping An (2318.HK / 2318 HK)

Price (21 Aug 2020): **HK$84.00** Target Price: **HK$103.00**

Analyst: **Charles Zhou**
Rating: **Outperform**

Earnings Drivers	12/19A	12/20E	12/21E	12/22E
In force premiums (APE)	585,363	605,493	636,350	676,282
New business premium (APE)	150,092	142,436	156,744	171,626
Value of 1yr new business (VNB)	75,945	68,463	78,601	87,277
VNB margin (%)	0.51	0.48	0.50	0.51
Number of agents	1,166,914	1,166,914	1,166,914	1,166,914
Income Statement (Rmb mn)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Life gross written premiums	526,811	533,029	591,663	656,745
P&C gross written premiums	270,996	294,534	313,679	338,773
Life pre-tax profit	97,630	104,126	131,076	156,049
P&C pre-tax profit	23,158	20,905	22,103	24,530
Asset mgmt pre-tax profit	0	0	0	0
Other pre-tax profit	40,727	46,153	51,311	58,555
Recurring PBT	**161,515**	**171,183**	**204,489**	**239,133**
Taxes	20,374	31,002	36,851	43,044
Profit after tax	**141,141**	**140,182**	**167,638**	**196,089**
Other after tax income	23,224	10,390	10,390	10,390
Reported net profit	**149,407**	**136,393**	**162,024**	**188,779**
Net profit (Credit Suisse)	**149,407**	**136,393**	**162,024**	**188,779**
Balance Sheet (Rmb mn)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Cash & cash equivalents	767,978	929,253	1,124,397	1,360,520
Long term investments	4,277,236	4,364,824	4,806,045	5,300,433
Other assets	3,177,715	3,587,433	4,040,334	4,613,167
Total assets	**8,222,929**	**8,881,511**	**9,970,775**	**11,274,120**
Technical liabilities - life	2,855,010	3,013,479	3,643,194	4,476,937
Other liabilities	4,515,549	4,894,623	5,211,557	5,510,021
Total liabilities	**7,370,559**	**7,908,103**	**8,854,751**	**9,986,958**
Shareholders' equity	**673,161**	**790,520**	**906,565**	**1,046,517**
Total liabilities & equity	**8,222,929**	**8,881,511**	**9,970,775**	**11,274,120**
Solvency				
Core Solvency ratio (%)	2.1	-	-	-
Comprehensive Solvency ratio (%)	2.2	-	-	-
Gearing ratio (%)	-	-	-	-
Leverage ratio (x)	9.34	8.69	8.41	8.16
Embedded value				
Group embedded value (EV)	1,200,533	1,397,892	1,640,056	1,915,530
Return on EV (%)	14.9	11.4	11.6	11.5
EV per share	65.67	76.47	89.72	104.79
EV per share growth (%)	20	16	17	17
In-force premium (IF APE)	585,363	605,493	636,350	676,282
EV margin (% IF APE)	75.7	86.8	98.4	110.3
Value of 1yr new business (VNB)	75,945	68,463	78,601	87,277
VNB growth (%)	5.1	(9.9)	14.8	11.0
New business premium (NB APE)	22.3	18.0	17.3	16.4
NB APE growth (%)	(6.1)	(5.1)	10.0	9.5
VNB margin (% NB APE)	50.6	48.1	50.1	50.9
Per share	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Shares (wtd avg.) (mn)	17,769	17,769	17,769	17,769
EPS (Credit Suisse) (Rmb)	**8.41**	**7.68**	**9.12**	**10.62**
BVPS (Rmb)	36.82	43.24	49.59	57.25
NTA per share (Rmb)	33.36	39.78	46.13	53.78
DPS (Rmb)	2.05	2.17	2.46	2.74
Earnings Growth (%)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Life premiums	11.5	1.2	11.0	11.0
P&C premiums	9.5	8.7	6.5	8.0
BVPS	21.0	17.4	14.7	15.4
NTA per share	22.4	19.2	16.0	16.6
Net profit	39.1	(8.7)	18.8	16.5
EPS	39.6	(8.7)	18.8	16.5
Valuation (x)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
P/E	8.9	9.8	8.2	7.1
P/B	2.04	1.73	1.51	1.31
P/NTA	2.25	1.88	1.63	1.39
P/EV	1.1	1.0	0.8	0.7
Dividend yield (%)	2.7	2.9	3.3	3.7
Profitability & margins (%)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
ROE	24.3	18.6	19.1	19.3
ROTE	27.0	20.4	20.6	20.7
ROA	1.9	1.6	1.7	1.8

Source: Company data, Refinitiv, Credit Suisse estimates

Company Background

Ping An is the second largest life insurance company in China with extensive multi-channel distribution network. The company offers individual life insurance, group life, accident insurance, and health insurance policies.

Blue/Grey Sky Scenario

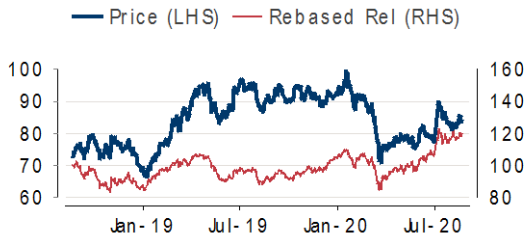
Our Blue Sky Scenario (HK$) **164.80**

Our blue sky scenario valuation of HK$164.8 assumes 13x VNB, 5.5% investment return assumption, and an 11% risk discount rate assumption for life insurance, 1.5x P/B for P&C insurance and bank, 8x and 5x P/E for Securities and Trust, 1x P/B for corporate and others, adding the valuation of Lufax, and 10% conglomerate discount.

Our Grey Sky Scenario (HK$) **51.50**

Our grey sky scenario valuation of HK$51.5 assumes 0x VNB, 3% investment return assumption, and an 8.5% risk discount rate assumption for life insurance, 0.9x P/B for P&C insurance and 0.6x P/B for bank, 8x and 5x P/E for Securities and Trust, 1x P/B for corporate and others, and 10% conglomerate discount.

Share price performance



The price relative chart measures performance against the MSCI CHINA F IDX which closed at 10,025.38 on 21-Aug-2020
On 21-Aug-2020 the spot exchange rate was HK$7.75/US$1

CREDIT SUISSE

China Life

An early entrant in the pension industry

2628.HK

Target price (12M, HK$)
30.00

Outperform

Life Insurance

- **Early entrant in the retirement value-chain.** China Life is among the few players who have established a pension subsidiary that is set to benefit from the secular opportunity of the commercial pension business in China. Besides, China Life is a pioneer in the retirement community space, with an emphasis on investment in the healthcare and elderly care value chain. The insurer has already completed several key retirement community projects located in Suzhou, Beijing, Tianjin and Anya, some of which are now in the early stages of operation. Over a longer term, we expect the value of retirement communities to gradually emerge, supplementing the growth of commercial pension.
- **Proxy for cyclical recovery.** We believe China Life is set to benefit most from the cyclical recovery of domestic macro conditions, with (1) the highest sensitivity to interest rate movements (EV/VNB sensitivity to change interest rate); and (2) strong visibility of a near-term new business sales recovery.
- **Sector-leading growth in 1H20 despite COVID-19 disruptions.** We expect China Life to deliver sector-leading VNB growth of 6.5% in 1H20. The slight moderation in 2Q (+8% in 1Q) should not be a surprise, as sales efficiency has not fully recovered and COVID-19 cases have re-emerged in certain regions. Offline business activities have gradually resumed in 2Q, but agents' productivity and activity ratio has not recovered to normal levels. The long-term saving and protection products (high margin) are more sophisticated, and the sales process usually requires face-to-face interaction. With social distancing, consumers are reluctant to meet, and so agents mostly focus on simple products (low margin) to acquire customers or maintain customer engagement. Such tactics aim to boost cross-sell/up-sell, which hopefully could pave the way for a better recovery in 2H.
- **Maintain OUTPERFORM** on (1) the healthy profitability of in-force and new books; (2) the improving growth profile post the COVID-19 disruption; (3) the structural and sustainable demand of life insurance and pension products; and (4) the deep valuation discount at 0.4x P/EV.

Price (21 Aug 20, HK$)	18.84
Upside/downside (%)	59.2
Mkt cap (HK$/US$ mn)	1,182,950 / 152,641
Enterprise value (Rmb mn)	995,305
Number of shares (mn)	28,265
Free float (%)	31.6
52-wk price range (HK$)	22.75-12.86
ADTO-6M (US$ mn)	138.4

Research Analysts

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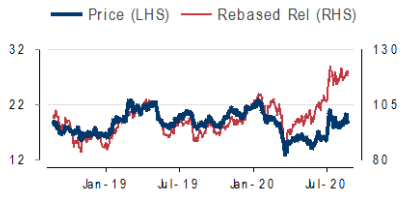
Financial and valuation metrics

Year	12/19A	12/20E	12/21E	12/22E
Life GWP (Rmb mn)	567,086	635,958	708,209	785,579
P&C GWP (Rmb mn)	0.0	0.0	0.0	0.0
Net profit (Rmb mn)	58,287.0	47,518.6	53,661.9	62,458.1
EPS (CS adj.) (Rmb)	2.06	1.68	1.9	2.21
Chg. from prev. EPS (%)	n.a.	0.0	0.0	0.0
Consensus EPS (Rmb)	n.a.	1.64	1.83	2.14
EPS growth (%)	411.5	(18.5)	12.9	16.4
P/E (x)	8.2	10.0	8.9	7.6
NTA per share (Rmb)	14.29	15.94	17.2	18.73
EV per share (Rmb)	33.33	37.5	42.48	48.11
Dividend yield (%)	4.3	3.8	4.0	4.7
P/B (x)	1.18	1.05	0.98	0.9
ROE (%)	16.1	11.1	11.5	12.3
P&C combined ratio (%)	-	-	-	-

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



The price relative chart measures performance against the MSCI CHINA F IDX which closed at 10,025.38 on 21/08/20. On 21/08/20 the spot exchange rate was HK$7.75/US$1

Performance	1M	3M	12M
Absolute (%)	1.2	34.0	3.9
Relative (%)	(1.3)	9.9	(25.6)

CREDIT SUISSE

China Life (2628.HK / 2628 HK)

Analyst: **Charles Zhou**

Price (21 Aug 2020): **HK$18.84**

Target Price: **HK$30.00**

Rating: **Outperform**

Earnings Drivers	12/19A	12/20E	12/21E	12/22E
In-force premiums (APE)	564,964	633,744	705,902	783,175
New business premiums (APE)	179,167	203,331	224,858	249,906
Value of 1yr new business (VNB)	58,698	62,687	69,358	76,542
VNB margin (%)	0.33	0.31	0.31	0.31
Number of agents	1,613,000	1,696,077	1,783,434	1,875,289
Income Statement (Rmb mn)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Life gross written premiums	567,086	635,958	708,209	785,579
P&C gross written premiums	0	0	0	0
Life pre-tax profit	59,795	57,279	64,684	75,287
P&C pre-tax profit	0	0	0	0
Asset mgmt pre-tax profit	0	0	0	0
Other pre-tax profit	(8,011)	(8,812)	(9,693)	(10,663)
Recurring PBT	**51,784**	**48,467**	**54,991**	**64,624**
Taxes	781	8,592	9,703	11,293
Profit after tax	**51,003**	**39,875**	**45,288**	**53,331**
Other after tax income	8,011	8,812	9,693	10,663
Reported net profit	**58,287**	**47,519**	**53,662**	**62,458**
Net profit (Credit Suisse)	**58,287**	**47,519**	**53,662**	**62,458**
Balance Sheet (Rmb mn)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Cash & cash equivalents	53,306	64,741	70,226	76,317
Long term investments	3,296,437	3,689,042	4,001,559	4,348,628
Other assets	376,991	378,762	380,715	382,868
Total assets	**3,726,734**	**4,132,545**	**4,452,500**	**4,807,814**
Technical liabilities - life	2,328,624	3,031,322	3,303,637	3,601,782
Other liabilities	988,768	643,827	654,773	666,975
Total liabilities	**3,317,392**	**3,675,149**	**3,958,410**	**4,268,757**
Shareholders' equity	**403,764**	**450,649**	**486,024**	**529,455**
Total liabilities & equity	**3,726,734**	**4,132,545**	**4,452,500**	**4,807,814**
Solvency				
Core Solvency ratio (%)	2.7	-	-	-
Comprehensive Solvency ratio (%)	2.8	-	-	-
Gearing ratio (%)	-	-	-	-
Leverage ratio (x)	8.10	8.03	8.01	7.92
Embedded value				
Group embedded value (EV)	942,087	1,059,914	1,200,625	1,359,711
Return on EV (%)	7.3	5.0	5.1	5.2
EV per share	33.33	37.50	42.48	48.11
EV per share growth (%)	18	13	13	13
In-force premium (IF APE)	564,964	633,744	705,902	783,175
EV margin (% IF APE)	166.8	167.2	170.1	173.6
Value of 1yr new business (VNB)	58,698	62,687	69,358	76,542
VNB growth (%)	18.6	6.8	10.6	10.4
New business premium (NB APE)	44.4	45.1	46.3	47.2
NB APE growth (%)	11.4	13.5	10.6	11.1
VNB margin (% NB APE)	32.8	30.8	30.8	30.6
Per share	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Shares (wtd avg.) (mn)	28,265	28,265	28,265	28,265
EPS (Credit Suisse) (Rmb)	**2.06**	**1.68**	**1.90**	**2.21**
BVPS (Rmb)	14.29	15.94	17.20	18.73
NTA per share (Rmb)	14.29	15.94	17.20	18.73
DPS (Rmb)	0.73	0.65	0.67	0.79
Earnings	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Growth (%)				
Life premiums	5.8	12.1	11.4	10.9
P&C premiums	-	-	-	-
BVPS	26.8	11.6	7.8	8.9
NTA per share	26.8	11.6	7.8	8.9
Net profit	411.5	(18.5)	12.9	16.4
EPS	411.5	(18.5)	12.9	16.4
Valuation (x)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
P/E	8.2	10.0	8.9	7.6
P/B	1.18	1.05	0.98	0.90
P/NTA	1.18	1.05	0.98	0.90
P/EV	0.5	0.4	0.4	0.3
Dividend yield (%)	4.3	3.8	4.0	4.7
Profitability & margins (%)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
ROE	16.1	11.1	11.5	12.3
ROTE	16.1	11.1	11.5	12.3
ROA	1.7	1.2	1.3	1.3

Source: Company data, Refinitiv, Credit Suisse estimates

Company Background

China Life is the largest life insurance company in China with an extensive multi-channel distribution network. The company offers individual life insurance, group life, accident insurance, and health insurance policies.

Blue/Grey Sky Scenario

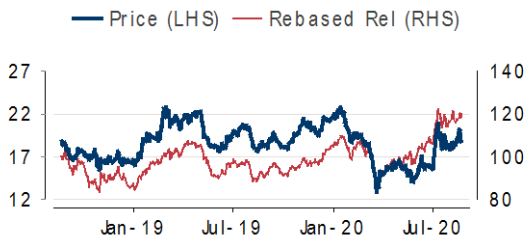
Our Blue Sky Scenario (HK$) **39.00**

Our blue sky scenario valuation of HK$39 assumes the China ten-year government bond yield in FY20 increases to 4.75%, 100 bp higher than CS forecast.

Our Grey Sky Scenario (HK$) **21.00**

Our grey sky scenario valuation of HK$21 assumes the China ten-year government bond yield in FY20 declines to 2.75%, 100 bp lower than CS forecast.

Share price performance



The price relative chart measures performance against the MSCI CHINA F IDX which closed at 10,025.38 on 21-Aug-2020

On 21-Aug-2020 the spot exchange rate was HK$7.75/US$1

CREDIT SUISSE

AIA Group

Well positioned to capture the 'protection gap' opportunity

1299.HK

Target price (12M, HK$)
82.00

Outperform

Life Insurance

- **Addressing the protection gap with quality insurance solutions.** AIA, as a pan-Asia life insurer, is well positioned to address the region's protection gap with its quality insurance solutions. According to Swiss Re, many Asian markets are facing a huge protection gap. With a presence in 18 life insurance markets, AIA is set to capture the structural growing opportunity of life, health and pension insurance in the region.
- **Differentiated strategy in Mainland China.** With the opening up of the domestic financial market to foreign players, AIA, as the first licensed fully-owned foreign life insurer, is able to explore the opportunities of geographic expansion, extending the sales coverage to more provincial markets in Mainland China. For life and health insurance, China has the largest health protection gap in Asia, according to Swiss Re. AIA China differentiates itself from domestic players, with continuous focus on the premier agency strategy and protection-orientated business. Besides, under its health & well-being strategic framework, the insurer intends to provide comprehensive healthcare and insurance solutions to its customers from 'payer' to 'partner'.
- **New CEO bringing China + tech experience to AIA.** In late-2019, AIA announced the appointment of Mr Lee Yuan Siong as the Group CEO and President, effective from Jun-2020 with a three year contract term. The appointment was applauded by the market, given Mr Lee's (1) proven record and qualification across major life insurance markets in Asia (30 years industry veteran); (2) likely longer commitment to the CEO position and execution strategy given his younger age; and (3) transformational leadership in technology empowerment, which would bring more dynamics to the traditional life insurance giant. More importantly, Mr Lee's extensive experience gained from Ping An, a leading Chinese insurer, would be a key advantage for AIA's China expansion in the next phase. AIA trades at a valuation premium to global peers, mostly reflecting investors' expectation on its China expansion after the removal of ownership cap for foreign life insurers in 2020. AIA currently operates in just five local markets in Mainland China, the fastest growing segment within the group.

Price (21 Aug 20, HK$)	75.05
Upside/downside (%)	9.3
Mkt cap (HK$/US$ mn)	907,436 / 117,090
Enterprise value (US$ mn)	122,967
Number of shares (mn)	12,091
Free float (%)	99.9
52-wk price range (HK$)	87.35-60.70
ADTO-6M (US$ mn)	289.2

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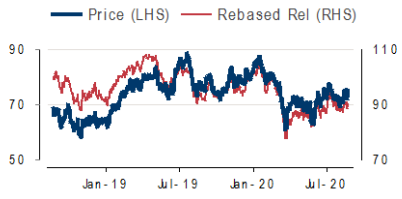
Financial and valuation metrics

Year	12/19A	12/20E	12/21E	12/22E
Life GWP (US$ mn)	32,896.0	36,080.6	41,066.1	47,048.1
P&C GWP (US$ mn)	0.0	0.0	0.0	0.0
Net profit (US$ mn)	6,648.0	4,277.2	7,011.2	7,667.9
EPS (CS adj.) (US$)	0.55	0.35	0.58	0.64
Chg. from prev. EPS (%)	n.a.	0.0	0.0	0.0
Consensus EPS (US$)	n.a.	0.43	0.58	0.65
EPS growth (%)	155.5	(35.7)	63.9	9.4
P/E (x)	17.5	27.3	16.7	15.2
NTA per share (US$)	4.55	4.65	5.04	5.46
EV per share (US$)	5.13	5.28	5.83	6.46
Dividend yield (%)	1.7	1.8	2.0	2.2
P/B (x)	2.04	1.99	1.85	1.71
ROE (%)	13.8	7.4	11.5	11.6
P&C combined ratio (%)	-	-	-	-

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



The price relative chart measures performance against the HANG SENG INDEX which closed at 25,113.84 on 21/08/20. On 21/08/20 the spot exchange rate was HK$7.75/US$1

Performance	1M	3M	12M
Absolute (%)	4.3	17.3	(1.6)
Relative (%)	4.1	7.7	2.0

CREDIT SUISSE

AIA Group (1299.HK / 1299 HK)

Price (21 Aug 2020): **HK$75.05**

Target Price: **HK$82.00**

Analyst: **Charles Zhou**

Rating: **Outperform**

Earnings Drivers	12/19A	12/20E	12/21E	12/22E
In-force premiums (TWPI)	34,002	37,291	41,941	47,575
New business annual premiums (ANP)	6,585	5,802	7,238	8,345
Value of 1yr new business (VNB)	4,154	3,252	4,262	5,027
Embedded value (EV)	61,985	63,807	70,445	78,075
New business margin (VNB % ANP)	0.63	0.56	0.59	0.60
Income Statement (US$ mn)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Life gross written premiums	32,896	36,081	41,066	47,048
P&C gross written premiums	0	0	0	0
Life pre-tax profit	6,816	7,062	7,891	8,594
P&C pre-tax profit	0	0	0	0
Asset mgmt pre-tax profit	0	0	0	0
Other pre-tax profit	0	(0)	(0)	(0)
Recurring PBT	**6,816**	**7,062**	**7,891**	**8,594**
Taxes	1,030	969	1,103	1,195
Profit after tax	**6,687**	**4,327**	**7,062**	**7,721**
Other after tax income	0	0	0	0
Reported net profit	**6,648**	**4,277**	**7,011**	**7,668**
Net profit (Credit Suisse)	**6,648**	**4,277**	**7,011**	**7,668**
Balance Sheet (US$ mn)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Cash & cash equivalents	3,941	2,392	5,383	9,045
Long term investments	228,111	251,911	282,753	320,127
Other assets	52,080	53,858	54,441	53,958
Total assets	**284,132**	**308,161**	**342,577**	**383,130**
Technical liabilities - life	189,597	203,609	228,996	259,761
Other liabilities	36,579	45,405	49,742	54,419
Total liabilities	**226,176**	**249,015**	**278,738**	**314,181**
Shareholders' equity	**57,508**	**58,695**	**63,388**	**68,499**
Total liabilities & equity	**284,132**	**308,161**	**342,577**	**383,130**
Solvency				
Solvency ratio (%)	557	474	486	504
- Tier 1 (%)	465	396	417	443
- Tier 2 (%)	92	78	69	61
Gearing ratio (%)	16.5	16.4	14.2	12.1
Leverage ratio (x)	4.08	4.39	4.54	4.72
Embedded value				
Group embedded value (EV)	61,985	63,807	70,445	78,075
Return on EV (%)	12.2	6.9	11.0	10.9
EV per share	5.13	5.28	5.83	6.46
EV per share growth (%)	14	3	10	11
In-force premium (IF APE)	34,002	37,291	41,941	47,575
EV margin (% IF APE)	182.3	171.1	168.0	164.1
Value of 1yr new business (VNB)	4,154	3,252	4,262	5,027
VNB growth (%)	5.0	(21.7)	31.1	17.9
New business premium (NB APE)	11.5	9.9	11.4	12.2
NB APE growth (%)	1.2	(11.9)	24.8	15.3
VNB margin (% NB APE)	63.1	56.1	58.9	60.2
Per share	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Shares (wtd avg.) (mn)	12,042	12,055	12,055	12,055
EPS (Credit Suisse) (US$)	**0.55**	**0.35**	**0.58**	**0.64**
BVPS (US$)	4.76	4.85	5.24	5.67
NTA per share (US$)	4.55	4.65	5.04	5.46
DPS (US$)	0.16	0.17	0.19	0.21
Earnings	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Growth (%)				
Life premiums	10.7	9.7	13.8	14.6
P&C premiums	-	-	-	-
BVPS	47.3	2.0	8.0	8.1
NTA per share	48.3	2.3	8.3	8.4
Net profit	156.0	(35.7)	63.9	9.4
EPS	155.5	(35.7)	63.9	9.4
Valuation (x)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
P/E	17.5	27.3	16.7	15.2
P/B	2.04	1.99	1.85	1.71
P/NTA	2.13	2.08	1.92	1.77
P/EV	1.9	1.8	1.7	1.5
Dividend yield (%)	1.7	1.8	2.0	2.2
Profitability & margins (%)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
ROE	13.8	7.4	11.5	11.6
ROTE	14.4	7.7	12.0	12.1
ROA	2.6	1.4	2.2	2.1

Source: Company data, Refinitiv, Credit Suisse estimates

Company Background

AIA Group is the largest independent public listed pan-Asian life insurance group. It has a presence in 18 markets in Asia-Pacific.

Blue/Grey Sky Scenario

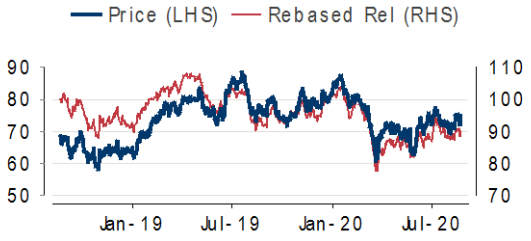
Our Blue Sky Scenario (HK$) **102.50**

Our blue sky value of HK$102.50 is derived using a sum-of-the-parts methodology (by country) using embedded value plus a value for the new business (VNB) multiple, depending on each country's growth profile and sense checked against price/earnings (P/E) and price/book value (P/B) multiples. The average implied group VNB multiple is 18.5.

Our Grey Sky Scenario (HK$) **61.50**

Our grey sky value of HK$61.50 is derived using a sum-of-the-parts methodology (by country) using embedded value plus a value for the new business (VNB) multiple, depending on each country's growth profile and sense checked against price/earnings (P/E) and price/book value (P/B) multiples. The average implied group VNB multiple is 6.5.

Share price performance



The price relative chart measures performance against the HANG SENG INDEX which closed at 25,113.84 on 21-Aug-2020

On 21-Aug-2020 the spot exchange rate was HK$7.75/US$1

CREDIT SUISSE

Prudential Plc

Pru's pivot to Asia

PRU.L

Target price (12M, p)
1,350
Outperform

Life Insurance

- **IPO of US business in 1H 2021.** Management intends to launch a minority IPO of Jackson National in 1H 2021 and fully divest the US business thereafter. We think this announcement is welcomed by investors seeking to make Pru a clean Asian growth franchise and plug the valuation gap to local peers. The IPO route has the advantage over a demerger of raising capital to fund growth in Asia. We estimate proceeds of ~US$2.0-3.0 bn based on an equity valuation of US$4.5 bn for Jackson—we have also deducted US$900 mn for separation costs and capitalised expense dis-synergies.
- **Rebased dividend means more cash for growth investment.** The divesture of Jackson National could provide up to US$3.0 bn of growth capital for Asia. To put this in context management invested US$1.0 bn p.a. in the past ten years towards writing new business (~US$600 mn in 2019) and funding partnerships/bancassurance distribution agreements. In this context it is also worth noting the revised dividend policy, rebased 44% lower vs ~25% reduction in cash generation post Jackson divesture, frees up more capital generation (US$300 mn p.a.) to be retained locally to fund growth.
- **Structural growth opportunities means Asian earnings can grow ~10-15% CAGR.** The structural growth drivers for savings, health & protection insurance remain intact, we expect demand to return at higher levels than before COVID-19 once the disease is fully contained across the region, as it has helped increase awareness amongst individuals to protect themselves and their families' well-being. Asia continues to exhibit an under-insured population with a rising number of people entering the middle classes, meaning long-term growth trends are likely to remain strong, despite short-term disruption to sales in lockdown.
- **Pru is underweight in China relative to peers, meaning inorganic growth is likely in the medium-term.** Foreign insurers have a small market share relative to domestic Chinese insurers, but Pru's market share remains at less than one third of AIA's (a multi-market Asian peer). We believe Pru would prioritise closing this gap through a potential acquisition that could lead to it taking full control of its 50:50 joint venture with China's CITIC. We estimate this would cost US$2.7 bn. Beyond this, we think there are opportunities to increase its distribution reach and healthcare ecosystems.
- **Valuation and catalysts.** Prudential is trading on ~8x 2021E earnings, or 14x for its Asian franchise, a 20% discount to AIA. Catalysts include successful divestment of its US business, further easing of lockdown measures across Asia allowing face-to-face sales. Risks include opting for a demerger rather than US IPO if market conditions are poor.

Financial and valuation metrics

Year	12/19A	12/20E	12/21E	12/22E
Pre-tax profit adjusted (US$ m)	5310.00	5729.15	6316.30	6904.32
CS EPS (adj.) (US$)	1.72	1.87	2.06	2.25
Prev. EPS (US$)	-	-	-	-
P/E (x)	9.27	8.51	7.71	7.05
NAVPS (US$)	7.12	8.44	9.99	11.70
Dividend (US$)	0.46	0.39	0.41	0.43
Dividend yield (%)	2.9	2.4	2.6	2.7
ROTE (adj.) (%)	23.3	23.9	22.3	20.7

Source: Company data, Refinitiv, Credit Suisse estimates

Price (21 Aug 20, p)	1215.00
Market Cap (£ m)	31,697.7
Secondary RIC	2378.HK
Rating	Outperform
Target price (12M, HK$)	129.17
Price (21 Aug 20, HK$)	125.00

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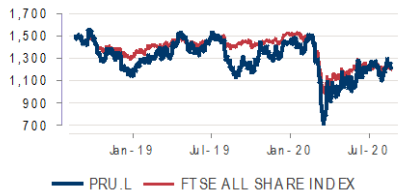
Share price performance



The price relative chart measures performance against the FTSE ALL SHARE INDEX which closed at 3352.2 on 21/08/20. On 21/08/20 the spot exchange rate was £.9/Eu 1.- Eu.85/US$1

Performance	1M	3M	12M
Absolute (%)	1.0	20.2	4.4
Relative (%)	3.6	18.7	18.4

Prudential Plc (PRU.L)

Price (21 Aug 2020): **1215.00p** Target Price: **1350.00**

Analyst: **Abid Hussain**

Rating: **Outperform**

Income statement (US$ m)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Life operating profit	6,031	6,141	6,576	7,061
P&C operating profit	-	-	-	-
Life re operating profit	-	-	-	-
P&C Re operating profit	-	-	-	-
Asset management	283	313	353	391
Other operating income/(expense)	(1,004)	(725)	(613)	(547)
Group operating profit	**5,310**	**5,729**	**6,316**	**6,904**
Non-operating items	(3,388)	(298)	(293)	(288)
Net reported income	**792**	**4,629**	**5,154**	**5,676**
CS Adj profit	**4,437**	**4,847**	**5,369**	**5,887**
Balance sheet (US$ m)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Assets				
Financial investments	-	-	-	-
Unit-linked assets	-	-	-	-
Intangible assets	969	969	969	969
DAC	17,476	18,164	18,018	19,242
Other assets	435,769	457,554	460,431	495,256
Total assets	**454,214**	**476,687**	**479,418**	**515,467**
Liabilities				
Technical reserves - life	402,119	374,532	399,397	429,311
Technical reserves - P & C	0	0	0	0
Other liabilities	32,426	78,978	52,724	54,272
Total liabilities	**434,545**	**453,509**	**452,120**	**483,583**
Net assets	**19,669**	**23,177**	**27,297**	**31,884**
Minority interests	192	192	192	192
Shareholder's equity	**19,477**	**22,985**	**27,105**	**31,692**
Per share	**12/19A**	**12/20E**	**12/21E**	**12/22E**
No. of shares (EOP)	2587.00	2594.91	2602.83	2610.74
CS EPS (adj.) (US$)	**1.72**	**1.87**	**2.06**	**2.25**
Prev. EPS (US$)	-	-	-	-
Dividend (US$)	0.46	0.39	0.41	0.43
BVPS (US$)	7.49	8.81	10.36	12.07
Net FCF Yield (%)	1.77	(1.39)	4.78	5.27
Hold Co FCF Yield (%)	3.92	2.82	3.21	3.63
Dividend payout (%)	26.97	20.71	19.69	18.91
Key ratios - growth (%)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
NWP - P&C	-	-	-	-
P&C technical reserves	-	-	-	-
Life - APE	4.6	(11.4)	7.4	9.5
Life technical reserves	17.7	(6.9)	6.6	7.5
Operating PBT	20.4	7.9	10.2	9.3
NPAT	23.4	9.2	10.8	9.6
EPS	22.9	8.9	10.4	9.3
DPS	(27.5)	(16.4)	5.0	5.0
BVPS	(11.6)	17.7	17.6	16.6
NTA per share	(5.9)	18.6	18.4	17.2
Valuation	**12/19A**	**12/20E**	**12/21E**	**12/22E**
P/E - CS EPS (x)	9.27	8.51	7.71	7.05
Dividend yield (%)	2.91	2.43	2.55	2.68
Price/NAV (x)	2.70	1.88	1.59	1.36
Price/EV (x)	0.76	0.68	0.62	0.56
Embedded value data				
Group embedded value (US$ m)	54711.00	60667.86	67271.97	74646.89
Embedded value ps (US$ m)	21.03	23.25	25.71	28.44
Life new business APE (US$ m)	7384.00	6543.83	7026.25	7696.41
Life new business value (US$ m)	4405.00	3790.54	4165.37	4632.27
Operating ROEV (%)		0.13	0.13	0.13
EV ps growth (%)		10.55	10.55	10.63
NBV growth (%)	(6.42)	(13.95)	9.89	11.21
Gearing	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Solvency ratio (x)	3.09	2.68	2.92	2.95
Debt leverage ratio (%)	0.30	0.25	0.21	0.18
Unrestricted Tier 1 / Total capital (x)	0.60	0.55	0.58	0.62
Hold Co FCF dividend cover (x)	1.35	1.16	1.25	1.35
FCF dividend coverage (x)	0.61	(0.57)	1.87	1.95
Margins (%)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
P&C combined ratio (%)	-	-	-	-
Life return on technical reserves (%)	5.6	5.3	5.3	5.3
Life new business margin (%)	59.7	57.9	59.3	60.2
Consolidated ROA (%)	0.8	1.0	1.1	1.2

Source: FTI, Company data, Refinitiv, Credit Suisse Securities (EUROPE) LTD. Estimates

Company Background

Global Life insurer with operations in the US and 14 markets across Asia. It has a varied product range including annuities, savings, and health and protection insurance. It also owns an Asia focused asset manager, Eastspring.

Blue/Grey Sky Scenario

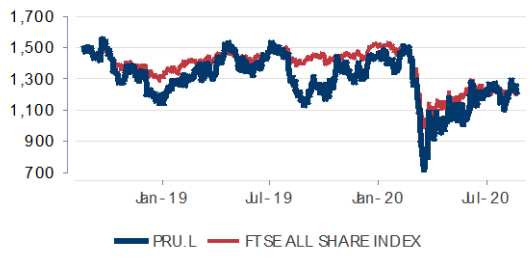
Our Blue Sky Scenario (p) **1620.00**

For Asian Life insurance we assume 10 bp higher Life margin on reserves at 2.40%. For US Life we assume 5 bp higher margin on reserves. For Eastspring 1 pp lower cost income ratio and an increase in the revenue margin on AUM of 5 bp to 35 bp. We also increase growth by 2 pp over the short and long-term.

Our Grey Sky Scenario (p) **710.00**

For Asia, 35 bp lower Life margin on reserves at ~2.0%. For US we assume 50 bp lower margin on reserves. Eastspring 1.5 pp higher cost income ratio plus and a decrease in the revenue margin on AUM of 10 bp to 20 bp. We also reduce growth by 3 pp in the short term and 1 pp in the long term.

Share price performance



The price relative chart measures performance against the FTSE ALL SHARE INDEX which closed at 3352.2 on 21/08/20
On 21/08/20 the spot exchange rate was £.9/Eu 1.- Eu.85/US$1

Companies Mentioned *(Price as of 19-Aug-2020)*

AIA Group (1299.HK, HK$74.6, OUTPERFORM, TP HK$82.0)
Airports of Thailand (AOT.BK, Bt53.25, OUTPERFORM, TP Bt62.0)
Alibaba Group Holding Limited (BABA.N, $260.59, OUTPERFORM, TP $309.0)
Alibaba Group Holding Limited (9988.HK, HK$255.4)
Bangkok Chain Hospital (BCH.BK, Bt15.0)
Bangkok Dusit Medical Services (BDMS.BK, Bt19.9)
Baxter International, Inc (BAX.N, $82.89)
Bumrungrad Hospital Pcl (BH.BK, Bt112.5)
CITIC (0267.HK, HK$7.66)
China Life (2628.HK, HK$19.2, OUTPERFORM, TP HK$30.0)
China Life (601628.SS, Rmb45.76)
China Pacific (2601.HK, HK$24.5)
China Pacific (601601.SS, Rmb31.93)
China Resources Medical Holdings Company Limited (1515.HK, HK$5.75, OUTPERFORM, TP HK$4.51)
China Taiping (0966.HK, HK$14.52)
China Vanke A (000002.SZ, Rmb27.44)
China Vanke H (2202.HK, HK$25.95, NEUTRAL, TP HK$27.4)
Chularat Hospital (CHG.BK, Bt2.64)
Fresenius (FREG.DE, €39.12)
Fresenius Medical Care AG & Co. (FMEG.DE, €73.48, NEUTRAL, TP €81.0)
IHH Healthcare Berhad (IHHH.KL, RM5.37, OUTPERFORM, TP RM6.25)
JD.com (JD.OQ, $72.56, OUTPERFORM, TP $80.0)
JD.com (9618.HK, HK$278.0)
Li Ning (2331.HK, HK$31.75, NEUTRAL, TP HK$29.0)
Malaysia Airports Holdings Bhd (MAHB.KL, RM5.4, OUTPERFORM, TP RM7.3)
New Frontier Health Corporation (NFH.N, $7.75, OUTPERFORM, TP $10.6)
Philips (PHG.AS, €43.74, NEUTRAL, TP €41.0)
Pinduoduo Inc (PDD.OQ, $95.94)
Ping An (2318.HK, HK$84.6, OUTPERFORM, TP HK$103.0)
Ping An (601318.SS, Rmb78.17)
Prudential Financial (PRU.N, $69.07)
Prudential Plc (PRU.L, 1250.5p, OUTPERFORM, TP 1350.0p)
Prudential Plc (2378.HK, HK$127.3)
Raffles Medical Group (RAFG.SI, S$0.81)
Rajthanee Hospital Public Company Limited (RJH.BK, Bt22.8)
Shenzhen Mindray (300760.SZ, Rmb309.0)
Siemens Healthineers (SHLG.DE, €39.62, OUTPERFORM, TP €44.0)
Time Dotcom Berhad (TCOM.KL, RM10.8)
Tongcheng-Elong (0780.HK, HK$14.7, OUTPERFORM[V], TP HK$17.0)
Trip.com Group (TCOM.OQ, $27.81)

Disclosure Appendix

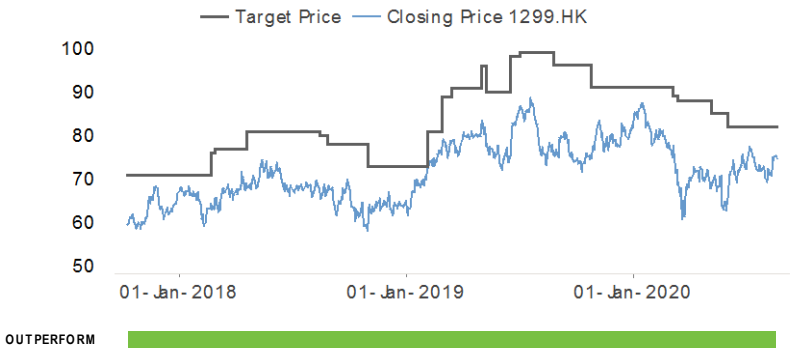
Analyst Certification

I, Edmond Huang, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for AIA Group (1299.HK)

1299.HK	Closing Price	Target Price	
Date	(HK$)	(HK$)	Rating
10-Oct-17	59.53	70.91	O
22-Feb-18	62.92	75.91	
28-Feb-18	65.47	76.90	
20-Apr-18	68.02	80.90	
15-Aug-18	66.82	79.90	
27-Aug-18	67.37	77.90	
31-Oct-18	59.28	72.91	
04-Feb-19	72.36	80.90	
28-Feb-19	78.40	88.89	
15-Mar-19	78.40	90.89	
02-May-19	83.15	95.88	
10-May-19	77.85	89.89	
17-Jun-19	75.20	98.00	
02-Jul-19	86.20	99.00	
26-Aug-19	75.50	96.00	
25-Oct-19	74.75	91.00	
04-Mar-20	75.05	89.00	
13-Mar-20	69.10	88.00	
05-May-20	67.85	85.00	
01-Jun-20	66.10	82.00	

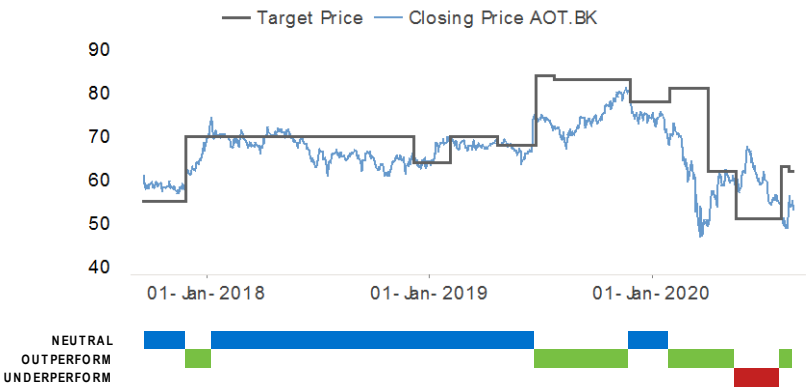
** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for Airports of Thailand (AOT.BK)

AOT.BK	Closing Price	Target Price	
Date	(Bt)	(Bt)	Rating
19-Sep-17	61.00	55.00	N
27-Nov-17	58.50	70.00	O
08-Jan-18	74.25	70.00	N
06-Dec-18	65.25	64.00	
04-Feb-19	69.25	70.00	
22-Apr-19	68.50	68.00	
24-Jun-19	75.50	84.00	O
25-Jul-19	72.00	83.00	
26-Nov-19	79.25	78.00	N
30-Jan-20	69.50	81.00	O
01-Apr-20	49.50	62.00	
18-May-20	58.50	51.00	U
31-Jul-20	51.50	63.00	O
13-Aug-20	56.25	62.00	

** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for Alibaba Group Holding Limited (BABA.N)

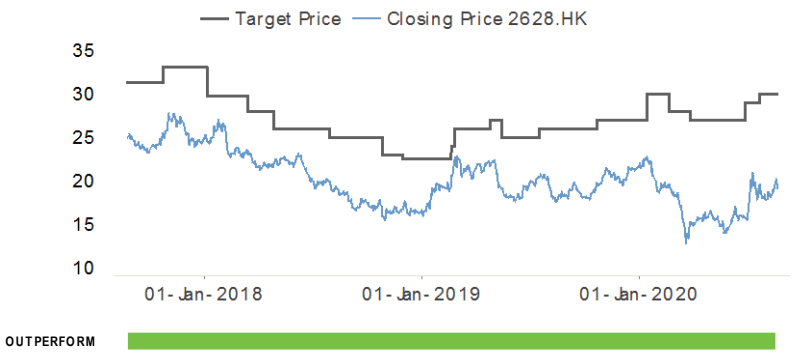
BABA.N	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
03-Oct-17	178.56	220.00	O *
03-Nov-17	183.21	226.00	
01-Feb-18	192.22		R
17-Apr-19	187.55		*
16-May-19	175.57		*
06-Jun-19	151.50		*
25-Sep-19	176.66		R
06-Jan-20	216.64	291.00	O *
14-Feb-20	219.63	281.00	
05-May-20	195.02	285.00	
09-Jul-20	261.58	309.00	

** Asterisk signifies initiation or assumption of coverage.*

3-Year Price and Rating History for China Life (2628.HK)

2628.HK	Closing Price	Target Price	
Date	(HK$)	(HK$)	Rating
25-Aug-17	25.00	31.30	O
23-Oct-17	25.45	33.00	
05-Jan-18	24.60	29.70	
14-Mar-18	23.25	28.00	
27-Apr-18	21.90	26.00	
30-Jul-18	19.90	25.00	
26-Oct-18	15.96	23.00	
30-Nov-18	16.80	22.50	
19-Feb-19	19.76	24.00	
25-Feb-19	22.65	26.00	
25-Apr-19	21.70	27.00	
14-May-19	19.14	25.00	
17-Jul-19	20.45	26.00	
21-Oct-19	19.70	27.00	
13-Jan-20	22.75	30.00	
19-Feb-20	19.48	28.00	
26-Mar-20	15.12	27.00	
26-Jun-20	15.80	29.00	
20-Jul-20	19.52	30.00	

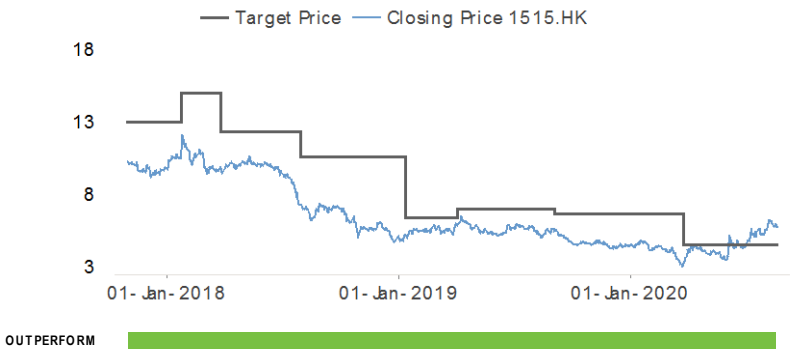
** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for China Resources Medical Holdings Company Limited (1515.HK)

1515.HK	Closing Price	Target Price	
Date	(HK$)	(HK$)	Rating
31-Oct-17	10.24	13.00	O *
24-Jan-18	11.36	15.00	
26-Mar-18	9.86	12.30	
30-Jul-18	7.29	10.60	
11-Jan-19	5.22	6.40	
03-Apr-19	5.88	7.00	
03-Sep-19	5.48	6.64	
25-Mar-20	3.34	4.51	*

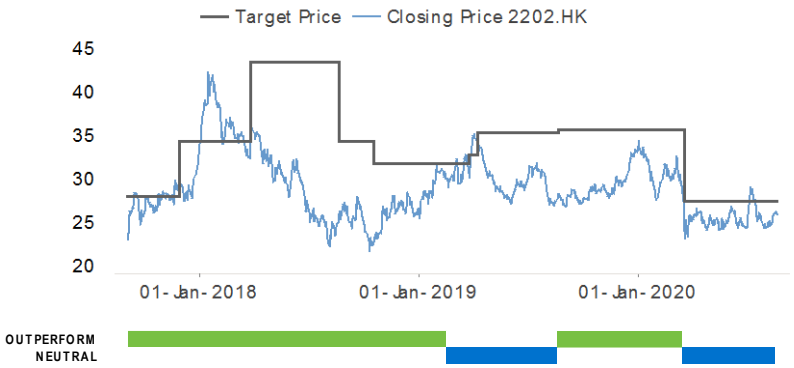
** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for China Vanke H (2202.HK)

2202.HK	Closing Price	Target Price	
Date	(HK$)	(HK$)	Rating
04-Sep-17	23.05	28.00	O
29-Nov-17	29.85	34.30	*
28-Mar-18	34.55	43.40	
22-Aug-18	26.25	34.30	
19-Oct-18	23.20	31.70	
18-Feb-19	30.00	31.70	N
26-Mar-19	30.15	32.70	
09-Apr-19	34.90	35.30	
22-Aug-19	28.25	35.60	O
18-Mar-20	24.05	27.40	N

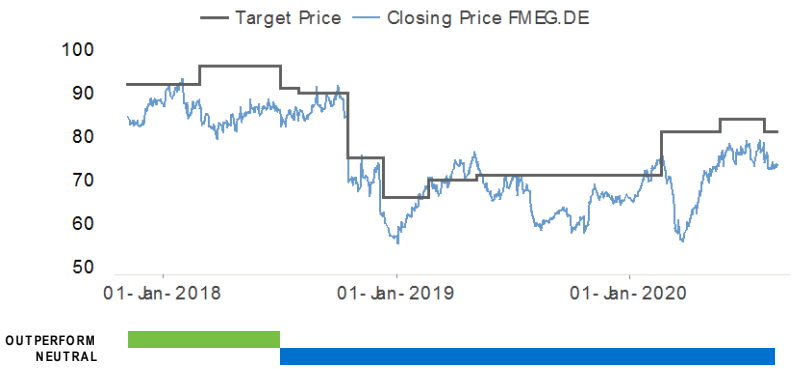
** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for Fresenius Medical Care AG & Co. (FMEG.DE)

FMEG.DE	Closing Price	Target Price	
Date	(€)	(€)	Rating
06-Nov-17	84.39	92.00	O
27-Feb-18	86.48	96.00	
04-Jul-18	82.38	91.00	N
01-Aug-18	84.84	90.00	
17-Oct-18	71.58	75.00	
12-Dec-18	62.42	66.00	
20-Feb-19	70.54	70.00	
06-May-19	74.44	71.00	
20-Feb-20	77.58	81.00	
21-May-20	74.04	84.00	
30-Jul-20	74.04	81.00	

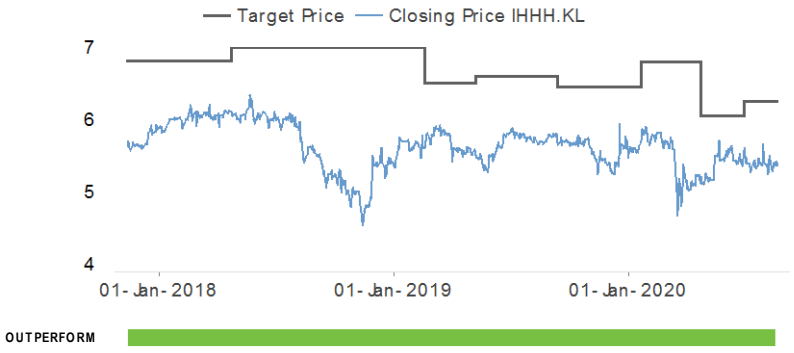
** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for IHH Healthcare Berhad (IHHH.KL)

IHHH.KL	Closing Price	Target Price	
Date	(RM)	(RM)	Rating
13-Nov-17	5.63	6.80	O *
24-Apr-18	6.09	7.00	
18-Feb-19	5.61	6.50	
08-May-19	5.51	6.60	
13-Sep-19	5.66	6.45	
10-Oct-19	5.67	6.45	*
20-Jan-20	5.68	6.80	*
22-Apr-20	5.12	6.05	
29-Jun-20	5.60	6.25	

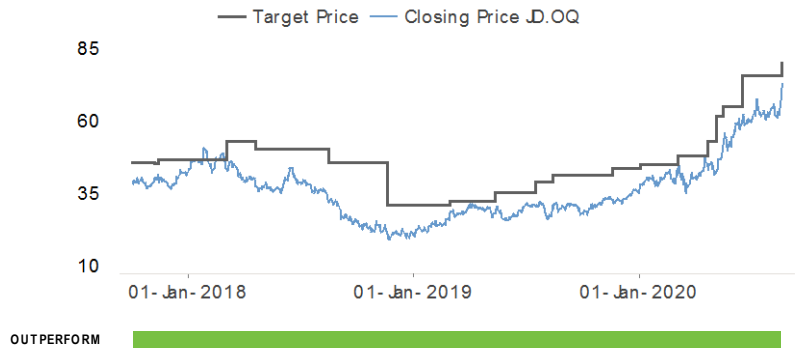
** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for JD.com (JD.OQ)

JD.OQ	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
03-Oct-17	39.21	45.50	O *
07-Nov-17	39.79	45.40	
14-Nov-17	38.90	46.70	
05-Mar-18	42.99	52.80	
20-Apr-18	37.44	50.40	
17-Aug-18	32.22	45.60	
20-Nov-18	19.49	31.00	
28-Feb-19	27.71	32.40	
17-Apr-19	29.85		*
13-May-19	28.18	35.30	O *
17-Jul-19	30.71	39.10	*
14-Aug-19	29.63	41.40	
18-Nov-19	32.80	43.50	
03-Jan-20	37.99	44.80	
03-Mar-20	41.46	48.00	
20-Apr-20	45.20	53.00	
05-May-20	43.12	61.50	
16-May-20	50.85	65.00	
15-Jun-20	59.51	75.50	
15-Jul-20	62.55	75.50	*
18-Aug-20	70.32	80.00	

** Asterisk signifies initiation or assumption of coverage.*

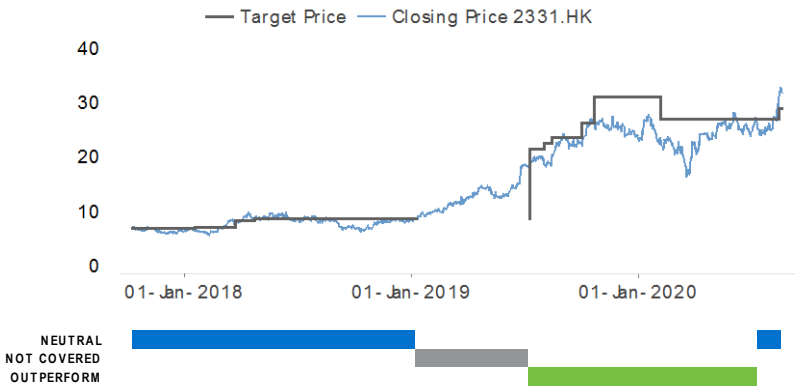


3-Year Price and Rating History for Li Ning (2331.HK)

2331.HK	Closing Price	Target Price	
Date	(HK$)	(HK$)	Rating
09-Oct-17	7.19	7.00	N
17-Jan-18	6.67	7.10	
23-Mar-18	8.15	8.30	
23-Apr-18	8.73	8.70	
08-Jan-19	8.74		NC
10-Jul-19	19.26	21.40	O *
02-Aug-19	18.74	22.60	
15-Aug-19	20.35	23.60	
02-Oct-19	22.15	26.30	*
21-Oct-19	26.85	31.00	
05-Feb-20	23.40	27.00	
13-Jul-20	24.90	27.00	N
14-Aug-20	31.55	29.00	

** Asterisk signifies initiation or assumption of coverage.*

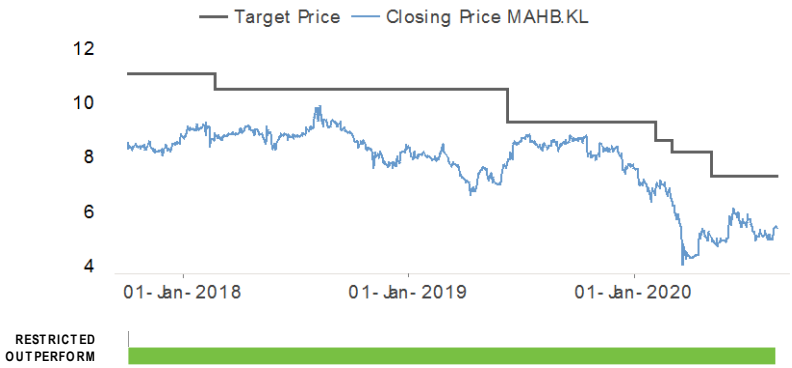
Effective July 3, 2016, NC denotes termination of coverage.



3-Year Price and Rating History for Malaysia Airports Holdings Bhd (MAHB.KL)

MAHB.KL	Closing Price	Target Price	
Date	(RM)	(RM)	Rating
03-Oct-17	8.52		R
04-Oct-17	8.52	11.05	O
22-Feb-18	8.76	10.50	
10-Jun-19	7.86	9.30	
05-Feb-20	6.94	8.60	
02-Mar-20	6.35	8.20	
04-May-20	5.06	7.30	

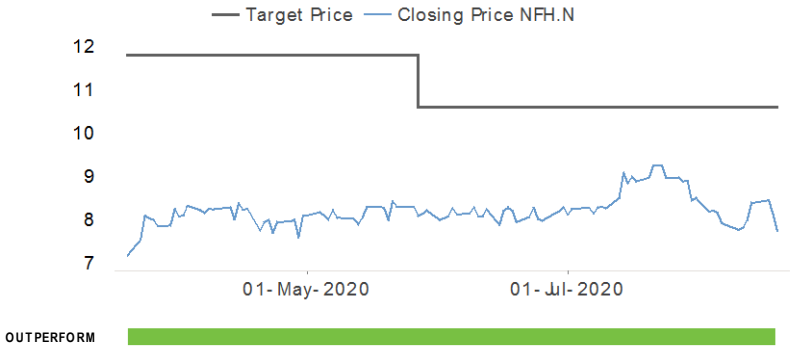
** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for New Frontier Health Corporation (NFH.N)

NFH.N	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
20-Mar-20	7.19	11.78	O *
27-May-20	8.09	10.60	

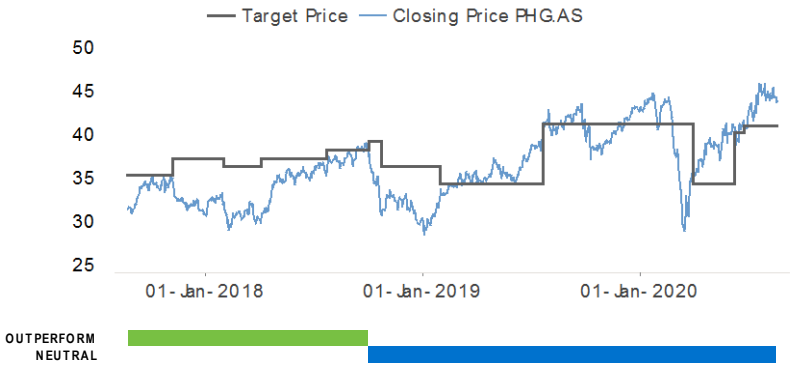
** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for Philips (PHG.AS)

PHG.AS	Closing Price	Target Price	
Date	(€)	(€)	Rating
23-Aug-17	31.48	35.28	O
06-Nov-17	34.94	37.24	
31-Jan-18	32.21	36.26	
04-Apr-18	29.87	37.24	
24-Jul-18	35.98	38.22	
02-Oct-18	37.47	39.20	N
23-Oct-18	30.79	36.26	
30-Jan-19	32.55	34.30	
23-Jul-19	41.35	41.16	
31-Mar-20	36.18	34.30	
09-Jun-20	40.82	40.18	
24-Jun-20	40.42	41.00	

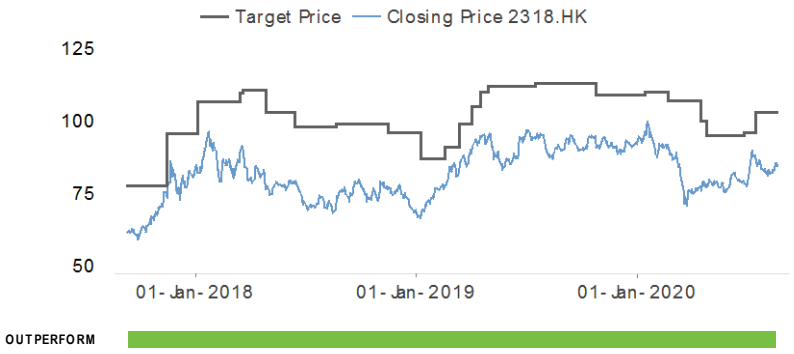
** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for Ping An (2318.HK)

2318.HK	Closing Price	Target Price	
Date	(HK$)	(HK$)	Rating
11-Sep-17	61.61	77.76	O
15-Nov-17	73.52	95.70	
05-Jan-18	81.99	106.67	
15-Mar-18	88.67	109.66	
21-Mar-18	88.03	110.66	
27-Apr-18	76.56	103.00	
14-Jun-18	79.05	98.00	
22-Aug-18	72.80	99.00	
15-Nov-18	77.10	96.00	
09-Jan-19	68.10	87.00	
18-Feb-19	77.75	91.00	
13-Mar-19	84.00	99.00	
03-Apr-19	91.00	105.00	
17-Apr-19	94.45	110.00	
30-Apr-19	94.45	112.00	
17-Jul-19	94.40	113.00	
25-Oct-19	90.90	109.00	
13-Jan-20	95.60	110.00	
21-Feb-20	91.00	107.00	
15-Apr-20	76.80	100.00	
24-Apr-20	77.30	95.00	
26-Jun-20	78.35	96.00	
15-Jul-20	86.55	103.00	

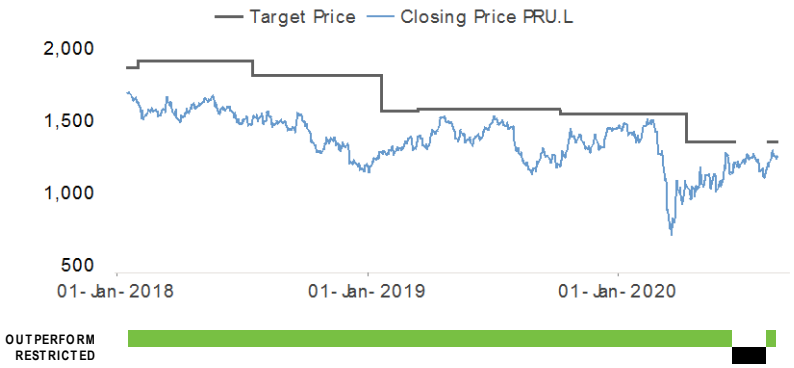
** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for Prudential Plc (PRU.L)

PRU.L	Closing Price	Target Price	
Date	(p)	(p)	Rating
17-Jan-18	1688.62	1861.54	O
01-Feb-18	1622.44	1908.51	
18-Jul-18	1516.56	1810.31	
22-Jan-19	1282.58	1566.94	
15-Mar-19	1387.19	1575.48	
08-Oct-19	1185.67	1545.59	
09-Apr-20	1047.00	1350.00	
18-Jun-20	1210.00		R
06-Aug-20	1183.50	1350.00	O

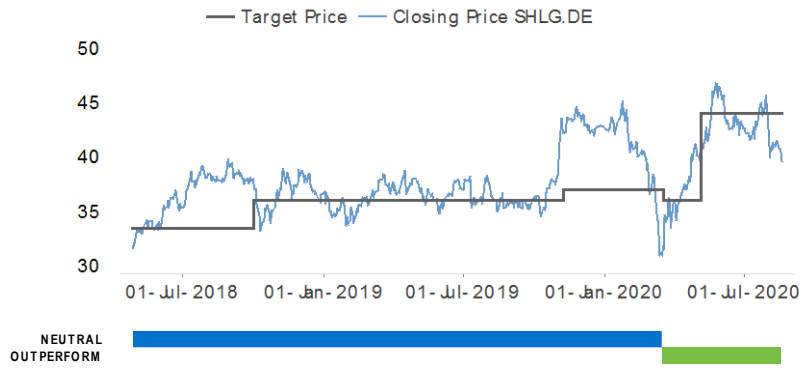
** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for Siemens Healthineers (SHLG.DE)

SHLG.DE	Closing Price	Target Price	
Date	(€)	(€)	Rating
27-Apr-18	31.68	33.50	N *
02-Oct-18	37.09	36.00	
08-Nov-19	42.20	37.00	
18-Mar-20	31.57	36.00	O
06-May-20	41.51	44.00	

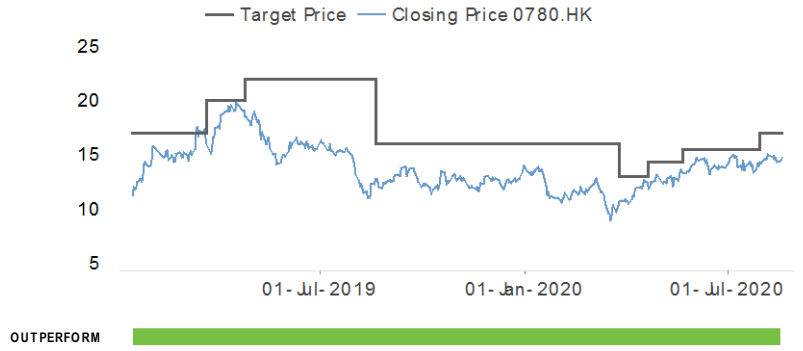
** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for Tongcheng-Elong (0780.HK)

0780.HK	Closing Price	Target Price	
Date	(HK$)	(HK$)	Rating
14-Jan-19	11.30	17.00	O *
21-Mar-19	16.04	20.00	
17-Apr-19	19.78		*
25-Apr-19	18.50	21.93	O *
20-Aug-19	12.76	16.00	
26-Mar-20	10.70	13.00	
21-Apr-20	11.86	14.30	
22-May-20	13.30	15.50	
30-Jul-20	14.30	17.00	

** Asterisk signifies initiation or assumption of coverage.*



As of December 10, 2012 Analysts' stock rating are defined as follows:

Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.

Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.

Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

**Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European (excluding Turkey) ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin America, Turkey and Asia (excluding Japan and Australia), stock ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark (India - S&P BSE Sensex Index); prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.*

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Not Covered (NC) : Credit Suisse Equity Research does not provide ongoing coverage of the company or offer an investment rating or investment view on the equity security of the company or related products.

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Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector* relative to the group's historic fundamentals and/or valuation:

Overweight : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

Market Weight : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

Underweight : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

**An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.*

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Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	50%	(33% banking clients)
Neutral/Hold*	37%	(28% banking clients)
Underperform/Sell*	12%	(20% banking clients)
Restricted	1%	

**For purposes of the NYSE and FINRA ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

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The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

Target Price and Rating
Valuation Methodology and Risks: (12 months) for AIA Group (1299.HK)

Method: We derive our HK$82 12-month forward target price for AIA using a sum-of-the-parts methodology (by country) using embedded value plus a value of new business (VNB) multiple, depending on each country's growth profile and sense checked against price/earnings (P/E) and price/book value (P/B) multiples. The average implied group VNB multiple is 13x. Our OUTPERFORM rating is based on: (1) strong growth in AIA's China business, (2) solid momentum in Hong Kong new sales, and (3) well-diversified exposure in various Asian markets.

Risk: Key risks to our HK$82 target price and OUTPERFORM rating for AIA include: (1) economic or market risk (notably interest rates in countries where AIA historically sold guaranteed policies), (2) operational and competition risks, (3) regulatory, political, tax and legal risks in all 18 markets it operates in, (4) distribution risk (mainly retention and motivation of sales force), and (5) weaker new business growth.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Airports of Thailand (AOT.BK)

Method: Our Bt62 target price for Airports of Thailand is based on DCF (discounted cash flow). We have assumed an 8.2% weighted average cost of capital (WACC), a 1.3% risk-free rate, and a 10.25% risk premium. Our OUTPERFORM rating is based upon long-term value and earnings potential supported by higher chances of COVID-19 vaccines.

Risk: Downside risks to our target price of Bt62 and OUTPERFORM rating for Airports of Thailand include: (1) failure of COVID-19 vaccines; (2) prolonged recovery of international passenger volume beyond our expectation and (3) any delay in new initiatives to raise non-aeronautical revenues.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Alibaba Group Holding Limited (BABA.N)

Method: Our target price of US$309.0 is based on SOTP method. Core commerce is valued at US$219.0/share, followed by Cloud at US$43.6. Local service/Cainiao are valued at US$7.9/6.4 based on the latest round of financing. Associates and net cash are worth US$41/20, respectively, before applying a 10% holdco discount. We arrive at a TP of US$309.0 (H-share HK$301.0), which implies 35.5x FY21E P/E, with 19% EPS CAGR. We rate the stock OUTPERFORM given the strong leadership in China e-commerce business, cohesive ecosystem covering every aspect of daily life and better corporate governance.

Risk: Risks that could impede achievement of our US$309.0 target price and OUTPERFORM rating for Alibaba include (1) weaker GMV growth; (2) slower pace of monetisation; (3) execution risk of local services; and (4) higher loss-making from DME and Cloud.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for China Life (2628.HK)

Method: Our target price of HK$30 for China Life (H) is based on our base case valuation of 4.5% investment assumption, 0.7x embedded value and 1.0x value of new business (with VIF and VNB adjusted for discount), implying 0.7x P/EV. We have an OUTPERFORM rating on China Life (H) mainly for sector leading VNB growth 2020E, improved execution and continuous value focus, solid 'open-year' sales built on more prudent product pricing and better mix, and undemanding valuation.

Risk: Risks to our HK$30 target price and OUTPERFORM rating for China Life (H) include: (1) weaker-than-expected VNB growth due to poor execution, (2) significant increase in GF bank exposure and (3) prolonged bond yield weakness.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for China Resources Medical Holdings Company Limited (1515.HK)

Method: We rate China Resources Medical Holdings Company Limited OUTPERFORM as we believe it is undervalued compared to other hospital names in the APAC region, and the fundamentals of the company remain strong with scale of the business and network/resources and the experienced management team gained by the merger of the CR healthcare team. Our HK$4.51 target price is based on multi-stage DCF (discounted cash flow) model with 8.4% WACC (weighted average cost of capital) and 2% perpetual growth rate.

Risk: Key risks to our OUTPERFORM rating and target price of HK$4.51 for China Resources Medical Holdings Company Limited include: failure to acquire new hospitals and the negative impact of healthcare service reform.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for China Vanke H (2202.HK)

Method: Our target price of HK$27.4 for China Vanke-H is based on a 40% discount to our net asset value (NAV) estimate. We appreciate its stronger-than-peers balance sheet but turned more conservative on its lower visibility on sales growth. We thus have a NEUTRAL rating on the company.

Risk: Upside risks for our HK$27.4 target price and NEUTRAL rating for China Vanke H include: (1) faster-than-expected sales growth; and (2) more improvement on the monetisation of non-development business. Downside risks include (1) slower-than-expected sales due to insufficient saleable resources, and (2) potential stake disposal of Baoneng.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Fresenius Medical Care AG & Co. (FMEG.DE)

Method: We rate FMC Neutral as we expect its shares to perform in line with the sector over the next 12 months. We value the stock at Eu81 using a 10-year discounted free cash flow model. We project average sales growth of c6%, incl. smaller acquisitions, average EBIT margin of c17%, an effective cash tax rate of c21% and capex, incl. acquisitions, to sales of 8%. Further, we assume cost of equity of 8.5%. Our target is based on 1.17 Eu/US$.

Risk: Risks to our Eu81 share price target and Neutral rating could come from unexpected Medicare reimbursement rate adjustments and commercial payer pricing and mix effects. Further risks include the exposure of the higher margin product business to politically and economically sensitive regions, drug manufacturers with strong relative bargaining power and significant advances in the use of kidney transplantation as a long-term treatment for ESRD.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for IHH Healthcare Berhad (IHHH.KL)

Method: We derive our target price of RM6.25 for IHH Healthcare using a DCF (discounted cash flow)-based valuation methodology, assuming an 7.4% WACC (weighted average cost of capital) and a 2.5% terminal growth rate. IHH's multi-market strategy gives it the ability to capture the growing healthcare demand across Asia, warranting an OUTPERFORM rating.

Risk: Key risks to our RM6.25 target price and OUTPERFORM rating for IHH Healthcare include: (1) government regulations, (2) execution risk, (3) intensifying competition, and (4) foreign exchange headwinds.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for JD.com (JD.OQ)

Method: Our SOTP-based TP of US$80 for JD.com bakes in value from JD Mall, JD Logistics, JD Health and investments in Dada-Daojia. We rate JD OUTPERFORM as we expect to see a significant uptrend in JD's EBIT margin as it gradually unleashes its bargaining power over brands, and continues to gain operating efficiency and the steady turnaround of its logistics business.

Risk: Risks to our OUTPERFORM rating and TP of US$80 for JD.com include: (1) weak user acquisition and retention due to intense competition; (2) category expansion to dilute ARPU (average revenue per user); (3) slower-than-expected margin expansion; and (4) the logistics segment staying loss-making for longer.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for JD.com (9618.HK)

Method: Our SOTP-based TP of HK$311 for JD.com bakes in value from JD Mall, JD Logistics, JD Health and investments in Dada-Daojia. We rate JD OUTPERFORM as we expect to see a significant uptrend in JD' s EBIT margin as it gradually unleashes its bargaining power over brands, and continues to gain operating efficiency and the steady turnaround of its logistics business.

Risk: Risks to our OUTPERFORM rating and TP of HK$311 for JD.com include: (1) weak user acquisition and retention due to intense competition; (2) category expansion to dilute ARPU (average revenue per user); (3) slower-than-expected margin expansion; and (4) the logistics segment staying loss-making for longer.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Li Ning (2331.HK)

Method: Our target price of HK$29.0 is based on 28x 2021E P/E (price-to-earnings). The 28x P/E is in-line with Nike and Adidas peers . We rate Li Ning NEUTRAL as we see a lack of near term catalyst and heavy discounts which will continue into 2H to put pressure on Li Ning pricing. Over the long term, top-line improvement backed by brand strategy and execution will regain market share. A margin rebound remains the key earnings driver, underpinned by change in product mix, operating leverage, and improved supply chain.

Risk: Key risks to our target price of HK$29.0 and NEUTRAL rating for Li Ning include: (1) rising competition from international brands, (2) a slower-than-expected recovery process, (3) slower-than-expected inventory clearance, and (4) a more benign competition landscape.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Malaysia Airports Holdings Bhd (MAHB.KL)

Method: We derive our RM7.30 target price for discounting the cash flows of both Malaysia and Turkey operations over its concession periods, using a WACC of 9.9% for Malaysia and 20.3% for Turkey. Our OUTPERFORM rating is premised on the long-term passenger traffic outlook for MAHB, potential RAB which could lift returns of its Malaysia operations and monetisation of its stake in ISG.

Risk: Risks to our target price of RM7.30 and OUTPERFORM rating for MAHB include: (1) political or regulatory changes significantly affecting concessions, (2) slower than expected recovery in air travel demand and (3) operating costs rising much faster/slower than inflation expectations.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for New Frontier Health Corporation (NFH.N)

Method: Our target price of US$10.60 is based on a multi-stage discounted cash flow (DCF) model with a weighted average cost of capital (WACC) of 9.41% and perpetual growth rate of 3.0%. We have an OUTPERFORM rating on New Frontier Health given it is a leading integrated private hospital group in China that has a strong brand with broad indication coverage and focused specialties.

Risk: Major downside risks to our US$10.60 target price and OUTPERFORM rating for New Frontier Health include: (1) a decrease in traffic volume in private hospitals in favour of larger, general public hospitals in China, (2) increased competition within the sector, and (3) weaker-than-expected government support in growing the private hospital sector in China.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Philips (PHG.AS)

Method: Our EUR41.00 target price for Philips is based on a 2021E sum-of-the-parts valuation. Our aggregate target multiple for Philips is 15x which is a 15% discount to the target multiple we use for Siemens Healthineers. Given the share is trading relatively close to our target price we rate Philips Neutral.

Risk: Downside risks to our EUR41 target price and Neutral rating include: 1) a longer lasting impact on Consumer confidence, 2) accelerating pricing pressure in Healthcare, 3) inability to timely deliver on Philips' strategic plan and 4) further issues with the FDA. Upside risks include 1) accelerating emerging market healthcare spending and 2) faster than anticipated cost savings.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Ping An (2318.HK)

Method: Our HK$103 target price for Ping An is based on our base case sum-of-the-parts valuation for each division, using 6x value of new business for life insurance (implying 1.3x EV), 1.0x book value for P&C insurance, 10x P/E for securities, 10x P/E for the Trust business and 1.0x book value for the bank. We have an OUTPERFORM rating on the back of sector leading RoEV, Ping An's best-in-class agency force, and technology-powered profitability.

Risk: Key risks to our HK$103 target price and OUTPERFORM rating for Ping An (H) include: (1) weak VNB growth, (2) A-share correction and bond yield weakness and (3) management change.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Prudential Plc (PRU.L)

Method: Our 1350p Target Price is based on estimating normalised (cross-cycle) margins by division to arrive at a sustainable group operating profit and RoE. This is compared to our estimate of the levered CoE, allowing for future returns to fade down to the CoE over the long term, to determine a fair value. Based on the 12-month upside implied from our target price we assign an Outperform rating.

Risk: Risks to our earnings forecasts, target price of 1350p and Outperform rating are: Equity markets, low bond yields, corporate bond defaults are general risk factors for Prudential. As a life insurer and provider of pre and post retirement savings products, Prudential is sensitive to macro and investment market factors like equity market performance, bond yields and credit defaults. While the savings product mix in most markets transfers a large proportion of equity market risk to the customer, we would still expect an impact on both fee income levels, sales volumes and potentially customer retention if there were a prolonged period of equity market weakness. Credit risk is most concentrated in the US annuity portfolios, where guaranteed returns (or income) have been provided to customers. Regulatory risks include the uncertainty caused by the delay in full implementation of financial advice reforms in the US, changes in capital requirements across local regimes in the US and Asia, or changes prescribed by it new group wide supervisor, the HKIA.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Siemens Healthineers (SHLG.DE)

Method: Our €44 target price is based on a 2021E SOTP. We apply an aggregate 17.8x EV/EBITA multiple which is a 20% premium to Imaging Equipment peers. Based on the upside potential indicated by our target price, we rate Siemens Healthineers Outperform

Risk: We see the key upside risks to our €44 target price and Outperform rating as being 1) successful execution on Atellica which may lead to the Diagnostics divisional multiple re-rating, 2) US Imaging demand accelerating, leading to faster than expected growth in the Imaging division. Key downside risks are 1) regulatory uncertainty leading to slower than expected demand, 2) pricing pressure in Imaging equipment being higher than expected, and 3) expensive acquisitions in new areas.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Tongcheng-Elong (0780.HK)

Method: Tongcheng-ELong is trading at 13x 2021E P/E (price-to-earnings), with 25% earnings CAGR through 2021E. We rate Tongcheng-ELong OUTPERFORM mainly on valuation. Our DCF (discounted cash flow)-based target price of HK$17 assumes 12% WACC and 2% terminal growth rate.

Risk: Key risks to our OUTPERFORM rating and HK$17 target price for Tongcheng-Elong include: (1) Chinese or global macro-economic slowdown; (2) unexpected intensification of competition; (3) execution risks; (4) deterioration or improvement in its relationship with Tencent; and (5) a potential conflict of interest with Ctrip.

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